

ANNUAL REPORT OF THE POSTMASTER GENERAL

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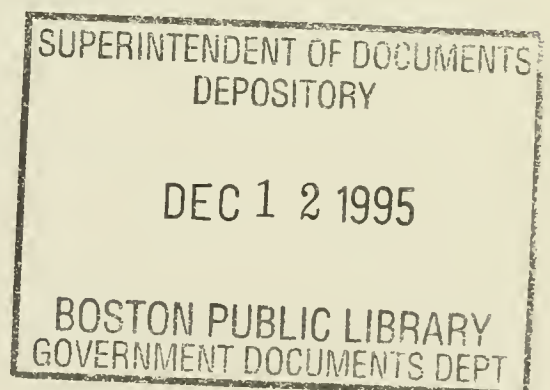
Annual Report of the Postmaster Gen...

HEARING BEFORE THE SUBCOMMITTEE ON POST OFFICE AND CIVIL SERVICE OF THE COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

AUGUST 2, 1995

Printed for the use of the Committee on Governmental Affairs



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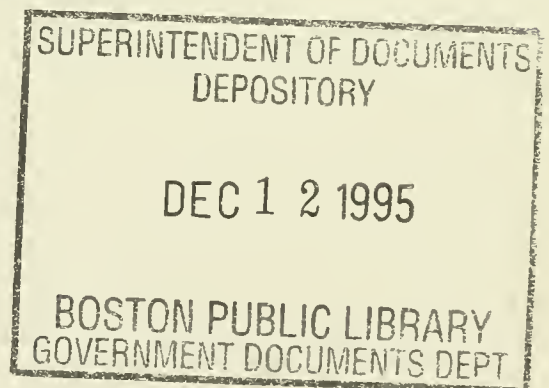
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ANNUAL REPORT OF THE POSTMASTER GENERAL

WEDNESDAY, AUGUST 2, 1995

U.S. SENATE,
SUBCOMMITTEE ON POST OFFICE, AND CIVIL SERVICE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met at 9:43 a.m., in room 342, Dirksen Senate Office Building, Hon. Ted Stevens, Chairman of the Subcommittee, presiding.

Present: Senators Stevens, Cochran and Pryor.

OPENING STATEMENT OF SENATOR STEVENS

Senator STEVENS [presiding]. We will come to order.

This is the time for the Postmaster General's annual report to Congress. It is a matter that we take very seriously. It was originally set for July 26th, but because of problems we had here in the Committee, we asked the Postmaster General to reschedule it. We want to thank you at this time, Mr. Runyon, for agreeing to postpone the date.

Aside from reporting on the financial status of the United States Postal Service, the purpose of this hearing is two-fold: First, Congress has the responsibility to oversee the functions of the United States Postal Service. This hearing gives us the opportunity to discuss with the Postmaster General and his staff specific issues and problems, and we do have questions that have been submitted by other Members that we will ask.

Secondly, it allows the Postmaster General to outline problem areas which may need legislative solutions and to preview plans that the Postal Service has for the future.

There is no question that a healthy Postal Service is absolutely vital to this Nation. As far as this Senator is concerned, that is particularly true in the rural areas of the United States. There are many areas of my State, as the Postmaster General knows, having come to the State to visit with us, where there is no possibility of access to these communities except by air, particularly on a year-round basis. Once in a while you can get to some of these places by boat, but the Postal Service in Alaska, I think, represents the epitome of the reason for the creation of the post office in the beginning of our country.

I do not really believe in long opening statements, as many people know. But I have been a little long this time, because I want the record to show and I hope that my good friend the Postmaster General realizes that this is a duty we take very seriously. We do

hope that you will be candid with us, and I know you will. We do not put the members of the Postal Service and other government officials who have taken an oath already under oath, but, as we believe, those of us who are already in government are under oath. Under the circumstances, we look forward to your answers to our questions.

I see that we have with us this morning Deputy Postmaster General Mike Coughlin, and I think he should be here.

So let me first call on my good friend from Arkansas to see if he has any comments.

OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Mr. Chairman, just a few comments. I would like for my statement to be made a part of the record, if possible.

Senator STEVENS. It will be.

Senator PRYOR. I suspect that we will have a good discussion this morning. I assume we will talk some about legislative changes to the Postal Reorganization Act. I look forward to participating in that discussion with the distinguished Postmaster General.

A few days ago, I had the high honor of a private discussion in my office with the Postmaster General. We focused on three areas of major concerns to the Postmaster General, people, products and price, and he believes legislative action on these areas is necessary. We would like for him to discuss this further, if he could, this morning.

I am very pleased that the Postmaster General has chosen to become a visible voice in this reform debate.

I look forward to hearing his ideas on postal reform. I must admit that I am not entirely comfortable with the tone of the reform discussion thus far. For example, the Postal Service management talks about the need for flexibility and the freedom to operate like a business. Business mailers seek changes to the ratemaking process that is going to lower their mailing costs. Privatization advocates claim that an end to government involvement will inevitably lead to greater efficiency.

With all of this talk, I must say, I have heard little concern expressed for those who represent the great majority of my constituency, the private citizen who mails his or her letters, cards and bills one piece at a time.

I think, too, that we need to look very carefully this morning at the automation system. GAO reports recently, despite a \$5 billion investment in automation, that the Postal Service is now seeing no real reduction I think in labor costs. And to make matters worse, it is my understanding that recent postal productivity performance has been negative. I hope that is wrong and I hope the Postmaster General can dispel that, if it is in fact wrong. If this is true, this trend certainly needs to be reversed.

Let us talk about some of the good news, too, with the Postal Service. In response to last year's delivery failures in such high-profile areas as Chicago and Washington, D.C., Mr. Chairman, the Postmaster General took aggressive steps. He became personally involved and improved service across this country. His efforts appear to be paying off now, and the indicators suggest that both overnight delivery performance and customer satisfaction are really

moving up the scale. I want to say to the Postmaster General that I think you should be applauded for that.

Finally, last year at our hearing, we talked about some very, very tough, thorny issues between management and labor. I would like to continue that discussion a little bit, Mr. Postmaster General, just to see what we have done since that year has gone by, hear what initiatives you have taken and what response you have gotten from labor. I think that would be a constructive part of this dialogue.

We welcome you here this morning. I thank you, Mr. Chairman. [The prepared statement of Senator Pryor follows:]

PREPARED STATEMENT OF SENATOR PRYOR

Thank you Mr. Chairman.

Mr. Postmaster General, I want to join Chairman Stevens in welcoming you before this Subcommittee. I look forward to receiving an update on the Postal Service's financial condition and delivery performance this morning. I also suspect that we will talk at some length about possible legislative changes to the Postal Reorganization Act. This is certainly a topic that seems to be the talk of the postal community these days.

When the Postmaster General and I had the opportunity to discuss Postal Service issues in my office a few weeks ago, Mr. Runyon focused on three areas—people, products, and price—where he believes legislative action is necessary. I am pleased that this Postmaster General has chosen to become a visible voice in the postal reform debate, and look forward to hearing his ideas on this subject in greater detail this morning.

While it may in fact be time to seriously consider changes to the current statute, I must admit that I am not entirely comfortable with the tone of this reform discussion. For example, Postal Service management talks about the need for flexibility and the freedom to operate like a business. Business mailers seek changes to the ratemaking process that will lower their mailing costs. Privatization advocates claim that an end to government involvement will inevitably lead to greater efficiency. Unfortunately, with all this talk, I have heard little concern expressed for those who represent the great majority of my constituency—the private citizen—who mails his or her letters, cards, and bills one piece at a time.

It is no surprise to me that the Postal Service does not operate like an independent business, governed primarily by economic considerations. Congress did not intend that it should. In 1970, a system was devised that recognized the special relationship which the Postal Service had with the individual citizens and communities of America. While not perfect, this postal service has provided a reasonably reliable and inexpensive universal delivery system for all Americans. I will be very reluctant to support changes to the system that may negatively impact individual mailers, who rely on an affordable and accessible mail system.

Postal reform is only one of a number of important issues facing the Postal Service. Last November, this Subcommittee held a hearing on the hostile labor-management relationship within the Postal Service. I hope Mr. Runyon can advise us concerning steps he has taken in the 8 months since that hearing to begin addressing these longstanding labor-management problems.

I am also disturbed by the GAO's recent findings regarding the Postal Service's automation program. GAO reports that despite a \$5 billion dollar investment in automation, the Postal Service is seeing no reduction in its labor costs. To make matters worse, recent postal productivity performance has been negative. Clearly, this is a trend that must be reversed.

There is good news at the Postal Service as well. In response to last year's delivery failures in such high-profile areas as Chicago and Washington D.C., the Postmaster General took aggressive steps to improve service across the country. His efforts appear to have paid off. Current indicators suggest that both overnight delivery performance and customer satisfaction are at all-time highs. The men and women of the Postal Service have worked extremely hard over the past year, and should be commended for their performance.

Mr. Runyon, I would note that this is your third oversight hearing before this Subcommittee. With each year, the challenges you face in heading the Postal Service seem only to increase. As always, I appreciate your willingness to discuss these challenges with us, and look forward to your statement.

Senator STEVENS. Thank you very much.

Before I call on my friend from Mississippi, let me say, Mr. Postmaster General, that I read and heard with great interest yesterday of the Board of Governors action in requesting that you stay on beyond your original commitment. I personally am very delighted and I believe the Members of Congress will join me in expressing their appreciation to you for your willingness to do further service for the Postal Service in this very critical period. You are on the wave.

We look forward to your statements about the future, but there is no question that your experience now will be of great benefit to all the country, if you stay on for the period of time. I understand it is indefinite as far as the Board is concerned. So I want to personally thank you on the record for that decision.

Senator Cochran?

OPENING STATEMENT OF SENATOR COCHRAN

Senator COCHRAN. Mr. Chairman, I would like to associate myself with your remarks. That was my opening statement.

Senator STEVENS. I am sorry.

Senator COCHRAN. That is all right. I saw the piece in the Post this morning and was very pleased to see the action of the Board of Governors, and I join with the Board in encouraging you to remain as Postmaster General. I think you have done an outstanding job. It is a time of transition. New technologies are becoming available to the Postal Service, and a lot of good things are happening under your leadership, and I think the country is in your debt. So I commend you for what you have done and look forward to hearing your report.

I will not be able to be here, Mr. Chairman, for the full time we will be meeting this morning because of another obligation in another committee. But I am glad to be here today and I congratulate Mr. Runyon on his service.

Senator STEVENS. Maybe you have given us an idea for a new approach to the term "limits," Marvin. Maybe we ought to have an amendment that gives people of each State the chance to vote way ahead of the primary to say yes, this guy ought to have a chance to serve beyond two terms.

Senator PRYOR. They might vote the other way. [Laughter.]

Senator STEVENS. Well, we would know then and would save a lot of money. I am a Scotsman, after all. [Laughter.]

Mr. Postmaster General, we welcome you and look forward to your statement. We appreciate the fact that you have prepared it and given it to us ahead of time. So let us yield you the time, and we will have questions after you have finished.

TESTIMONY OF THE HON. MARVIN RUNYON, POSTMASTER GENERAL, UNITED STATES POSTAL SERVICE; ACCOMPANIED BY MICHAEL S. COUGHLIN, DEPUTY POSTMASTER GENERAL; MARY ELCANO, SENIOR VICE PRESIDENT AND GENERAL COUNSEL; AND JOE MAHON, VICE PRESIDENT FOR LABOR RELATIONS

Mr. RUNYON. Thank you, Mr. Chairman. Good morning, everyone.

With me today is Mike Coughlin, our Deputy Postmaster General, and seated behind us are Mary Elcano, our Senior Vice President and General Counsel, and Joe Mahon, our Vice President for Labor Relations.

We are pleased to be here to talk with you about the efforts of the Postal Service to meet the communication needs of the Nation today and steps we can take to deliver excellence tomorrow.

Fiscal year 1995 has been a year of unprecedented success for our organization.

I am pleased to report that mail service across the Nation is the best it has ever been. Eighty-seven percent of local first-class mail is being delivered overnight. That is four points better than a year ago, and two points better than the record which we set the previous quarter. We have made gains virtually coast-to-coast, with 85 of our 95 performance clusters showing at least fractional improvement.

In the processing facilities, operating conditions are the best they have been in years. Advertising mail and packages are moving through our operations and into the mailbox quickly and efficiently. And service performance is up in our other product lines, too.

Customers have seen the difference. Satisfaction levels rose last quarter, despite the increase in postage rates. And satisfied customers are bringing us even more business.

Financially, we will end the year with our best performance in history. We currently have a net income of \$1.5 billion, \$1.2 billion better than our aggressive operating forecasts. This income is resulting from gains on both sides of the ledger, building the business and controlling costs. Revenue is \$3.7 billion better than this time a year ago. Today, mail volume is up 2.6 percent over a year ago, putting us on track to deliver a record 180 billion pieces of mail this year. That is a resounding vote in favor of the business approach we have taken—four straight years of stable rates, followed by a less than inflation rate increase implemented earlier this year. And yet, while our workloads are up, overtime is down 9.7 percent compared with last year.

This financial performance could not come at a better time. Through the years, we have built up billions of dollars in negative equity. We have had a lot of help getting into debt, too, as you know. Since 1987, Congress has assessed us more than \$14 billion through 1998 to help reduce the Federal deficit. This year's net income will help us offset some of that red ink. We are applying these profits toward reducing this deficit and shrinking it to zero as soon as possible. This will firmly establish the Postal Service as a company that is financially sound.

The credit for our success goes to our people. Postal employees nationwide are doing a fine job, in both bottom-line performance and top-line concern for customers. Their actions speak louder than any words I can say. Rain, snow, or incredible heat, they are getting the job done. Each day they remind us that serving every mile and every mailbox, from Alton Bay, New Hampshire, to Little Rock, Arkansas, to Anchorage, Alaska, is vital work for the nation.

However, we realize we cannot become complacent. We know that our best today will not be good enough tomorrow. We are working hard to keep raising the bar on our performance. First, we

are deploying automation at a record pace. A total of 3,200 pieces of automation equipment are going into post offices this year and next. That is a \$1 billion investment that will help put bar codes to work all the way to the letter carrier's case and to the customers mailbox.

Second, we are pressing forward with classification reform. The proposal we filed in March is a bold first step toward market-based pricing, the most sweeping rate reform case since the Postal Service was created in 1971. These are the reforms our customers told us we must make to meet their needs.

Classification reform makes sense for businesses large and small and for consumers. It will help us get the most out of automation by encouraging customers to make their mail efficient for us to handle. And in the process, it will keep overall postage rates lower longer. Our goal is to make it easier, more efficient, and more cost-effective to use the U.S. mail.

Third, we have taken another bold step in adopting the Baldrige criteria, the yardstick used by many successful companies in the private sector to measure true business excellence. We have completed a National assessment, identified areas for attention, and ten teams are leading our organization in making improvements. We are determined to do the right things right the first time, every time.

And we are looking ahead to ways we can help deliver the mail of the future. I believe we have a responsibility to serve the communication needs of our customers and the Nation today and tomorrow.

Right now, we are working with private sector partners to develop the next generation of communications products, services that blend the speed of electronics with the reach and reliability of the mail. Soon our business customers will be able to know in advance that the check is in the mail, and access electronically information that is en route to them on subscription and order cards.

Leading companies in the high-tech sector are seeking our help to bring the privacy and security of hard-copy mail to electronic communications. I believe we can make an important contribution in enabling and strengthening electronic commerce in this country. For example, working with Premenos, Inc., the leading provider of electronic data interchange services, we are testing a way to authenticate E-mail messages on the Internet. We are moving rapidly in this direction and we will soon be announcing a number of private sector partnerships to support electronic communications.

I was recently pleased to hear you, Chairman Stevens, describe the Postal Service as a "trusted third party delivering America's mail for two centuries." It was still more gratifying to hear you say, "We could easily be the trusted third party in cyberspace, providing the secure delivery of the nation's private E-mail messages." Mr. Chairman, we hear you and are willing to accept that responsibility. And we will continue our efforts so that one day soon we can deliver on that vision.

Despite the record achievements of our employees and our efforts to prepare for tomorrow, I must voice my deep concern about the future of the Postal Service and the future of the mail. There is much at stake here for the millions of Americans in communities

large and small who depend on our services and the ability to communicate with everyone, everywhere, every day.

Yes, our business continues to grow. But that growth is being overwhelmed by growth among our competitors in the communications industry. We are losing market share in four of our six product areas. And two-thirds of our revenue stands vulnerable to the bits and bytes of electronic communications.

Unfortunately, we are hamstrung by laws, rules, regulations and red tape, outdated constraints that are holding us back from delivering even better service and financial performance to the American people. Our problems fall into three areas, people, prices, and products.

Postal employees are tangled up in work and regulations that heighten conflicts and block teamwork and cooperation. Instead of resolving contractual problems, arbitration creates them, pushing both sides to polar positions. Multiple appeal processes prevent us from holding some employees accountable for their performance. And outmoded compensation rules prevent us from rewarding others for outstanding effort.

Our price-setting process is out of sync with the speed and direction of modern business. It takes too long, it costs too much, and it is too inflexible. We cannot offer volume discounts or create contract service arrangements with our domestic customers, steps our competitors can take.

Our products are out of touch with the marketplace. In many cases, customers pay for what they are sending, not when they want it to get there. And it can take more than 10 months to price a new product and bring it to market. Meanwhile, competitors have come and gone, cashing in on the new business opportunities.

Our inability to compete threatens the future of the mail once we deliver all the business that we call correspondence and transactions. By 1988, our market share was 77 percent. Last year, it was down to 62 percent, and industry experts predict it will drop to 43 percent by the year 2000. I am concerned that erosion of the mail will eventually make it impossible for us to provide an affordable, efficient mail system that serves all America.

That troubles me greatly. The mail is the lifeline of communications for millions of the people. Many small businesses do business by mail. It is how millions of Americans pay their bills, buy merchandise, invest in their futures, keep up with the news and stay in touch with family and friends. In some remote parts of Alaska, people rely on the mail to get their groceries.

Mr. Chairman, with the help of this Subcommittee and the House Subcommittee on the Postal Service, we can take steps now to insure a viable mail service in the next century.

The Postal Reorganization Act of 1971 has served us well, but it was created a quarter century ago. No one could envision then the magnitude of the changes that would take place in the past 25 years. We have to update the law. We need to bring the Postal Service into the modern communications age and get it ready for the century of service ahead.

Over the past several months, I have talked with thousands of customers. I have met with members of Congress and listened to industry leaders and the heads of our unions and management as-

sociations. One clear message has resonated through all these visits. Luis Jimenez, Vice President for Arthur D. Little, put it this way recently: "It is not a question of whether the Postal Service must change. The question is how much it will change and how quickly it will do it."

Three weeks ago, we held an international conference called FuturePost 95 to explore the best business practices from postal systems around the world. The Governors and top officers of the Postal Service took part along with CEOs of some of the nation's largest businesses, prominent postal customers from all of our product lines. We also invited leaders of the various mailing associations, the presidents of our unions and management associations, the Chairman of the Postal Rate Commission and congressional staff to meet and talk with the heads of five of the world's most progressive postal administrations.

The feedback from participants has been positive. In follow-up to the discussions, we have asked the CEOs to work together to develop recommendations of the changes they feel should be made to the U.S. Postal Service. We expect to receive these papers in a few weeks and look forward to letting you hear the voice of the customer, too.

FuturePost 95 was an eye-opening event. I found it stimulating to compare business philosophies with my peers and private sector leaders. It was familiar to hear about past market and regulatory obstacles, and reassuring to learn that other postal systems have found ways to overcome them. I must admit, it was frustrating to hear again and again about the business freedoms afforded our peers around the world, freedoms that are helping them deliver communications excellence to their customers and produce profits for their governments, but freedoms that are not in place here in the United States.

There are lessons to be learned and opportunities to be pursued. New Zealand Post is one example of what a government organization can do when it is free to run like a business. The Post became a state-owned enterprise in 1987 with a clear mandate to achieve profitability. More importantly, it was given the legislative tools to accomplish that mission. The Post has a limited monopoly over light-weight letters and the freedom to set its own market-based prices in all other areas. It turned a profit each of the last 8 years, in addition to paying corporate taxes. And it is now preparing to roll back the price of basic letters from 29 cents to 25 cents U.S.

Sweden Post is an example of product freedoms in action, another government owned company. Sweden Post has the latitude to set its own prices, invest in other companies and form joint ventures. It is Sweden's leading provider of electronic, as well as hard-copy communications. Eighteen months ago, the letter mail monopoly was removed and the postal market in Sweden completely deregulated. Even in this period of transition, Sweden Post has met its overnight delivery commitments 96 percent of the time and continued to turn a profit for the nation.

Australia Post shows us that workforce relations can be turned around. Australia corporatized the Post in 1990, after decades of strikes and workforce unrest. Management and the unions had to face dramatic changes, a new mandate for profits, reduced monop-

oly protections, and expanded competition. So they worked together to identify and fix problems on-site.

They are training away automatic management. Quality is taught hands-on, and the unions and employees now recognize that their success depends on the Post's success. The results: Employee disputes have dropped 95 percent. Labor productivity rates have improved each year, rising from 1 percent in 1990 to 6.8 percent in 1994, more than double Australia's National average. On-time delivery is at 94 percent, and profits after taxes have grown sevenfold. Clearly, there are lessons to be learned from these and other progressive postal administrations around the world, lessons that can be put to work here in the United States.

I look forward to reading the recommended changes put forward by the nearly two dozen business leaders who took part in FuturePost 95, which we will share with you for the record.

Mr. Chairman, I still remember your words from the conference 2 weeks ago, "The Postal Service is a National treasure, a vital organization made up of outstanding people." I could not agree more. Our performance has come a long way in a year. We have achieved a delicate balance between good service and strong finances.

Gentlemen, with your help and that of our House oversight Subcommittee, we can take the next step. We can update postal legislation, reform our system, and raise our performance to a new level.

The course of change that we choose must also strike a delicate balance, a balance between cut-throat competition and regulatory inertia, between profitability and social responsibility. But I am convinced that working together we can make the United States Postal Service an organization that can deliver value and excellence in the next century.

Thank you, Mr. Chairman. That concludes my statement.

[The prepared statement of Mr. Runyon follows:]

PREPARED STATEMENT OF MARVIN RUNYON

Thank you, Mr. Chairman, and good morning everyone.

With me today is Mike Coughlin, Deputy Postmaster General. Seated behind us are Mary Elcano, Senior Vice President and General Counsel and Joe Mahon, Vice President for Labor Relations.

We're pleased to be here to talk with you about the efforts of the Postal Service to meet the communications needs of the Nation today, and steps we can take to deliver excellence tomorrow.

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In our processing facilities, operating conditions are the best they've been in years. Advertising mail and packages are moving through our operations and into the mailbox quickly and efficiently. And service performance is up in our other product lines, too.

Consumers have seen the difference. Satisfaction levels rose last quarter despite the increase in postage rates. And satisfied customers are bringing us even more business.

For example, last year American companies invested a record \$29.3 billion in the mail to promote their products and services. That put us in a virtual three-way tie with television and newspapers for the American advertising dollar. This year, we'll break that record going away.

Financially, we'll end the year with our best performance in history. We currently have a net income of \$1.5 billion, \$1.2 billion better than our aggressive operating forecasts. This income is resulting from gains on both sides of the ledger—building the business and controlling costs. Revenue is \$3.7 billion better than this time a year ago. Total mail volume is up 2.6 percent over a year ago, putting us on track to deliver a record 180 billion pieces of mail this year. That's a resounding vote in favor of the business approach we've taken . . . 4 straight years of stable rates, followed by a "less than inflation" postage rate increase implemented earlier this year. And yet, while our work load is up, overtime is down 9.7 percent compared with last year.

This financial performance couldn't come at a better time. Through the years, we've built up billions of dollars in negative equity. We've had a lot of help getting into debt, too, as you know. Since 1987, Congress has assessed us more than \$14 billion through 1998 to help reduce the Federal deficit. This year's net income will help us offset some of that red ink. We're applying these profits toward reducing this deficit and shrinking it to zero as soon as possible. This will firmly establish the Postal Service as a company that's financially sound.

The credit for our success goes to our people. Postal employees nationwide are doing a fine job . . . in both bottom-line performance and top-line concern for customers. Their actions speak louder than any words I can say. Rain, snow, or incredible heat, they're getting the job done. Each day they remind us that serving every mile and every mailbox . . . from Alton Bay, New Hampshire . . . to Little Rock, Arkansas . . . to Anchorage, Alaska . . . is vital work for the nation. However, we realize that we can't become complacent. We know that our best today won't be good enough tomorrow. We're working hard to keep raising the bar on our performance.

First, we're deploying automation at a record pace. A total of 3,200 pieces of automated equipment are going into post offices this year and next, a \$1 billion investment that will help put barcodes to work all the way to the letter carrier's case and the customer's mailbox.

Second, we're pressing forward with Classification Reform. The proposal we filed in March is a bold first step toward market-based pricing, the most sweeping rate reform case since the Postal Service was created in 1971. These are the reforms our customers told us we must make to better meet their needs. Classification Reform makes sense, for businesses large and small and for consumers. It'll help us get the most out of automation by encouraging customers to make their mail efficient for us to handle. And in the process, it'll keep overall postage rates lower, longer. We're committed to further reform too—nonprofits, parcels, and expedited mail—as soon as possible. Our goal is to make it easier, more efficient, and more cost-effective to use the U.S. Mail.

Third, we've taken another bold step in adopting the Baldrige criteria, the yardstick used by many successful companies in the private sector to measure true business excellence. We've completed a national assessment, identified areas for attention, and ten teams are leading our organization in making improvements. We're determined to do the right things right . . . the first time, every time.

And we're looking ahead to ways we can help deliver the mail of the future. I believe we have a responsibility to serve the communications needs of our customers and the nation, today and tomorrow.

Right now, we're working with private sector partners to develop the next generation of communications products—services that blend the speed of electronics with the reach and reliability of the mail. Soon our business customers will be able to know in advance that the check is in the mail, and access electronic information that is en route to them on subscription and order cards.

Leading companies in the high tech sector are seeking our help to bring the privacy and security of hard copy mail to electronic communications. I believe we can make a contribution in enabling and strengthening electronic commerce in this country. For example, working with Premenos, Inc., the leading provider of electronic data interchange services, we're testing the means to authenticate E-Mail messages on the Internet. We're moving rapidly in this direction and we'll soon be announcing a number of other private sector partnerships to support electronic communications.

I was pleased recently to hear you, Chairman Stevens, describe the Postal Service as a trusted third party, delivering America's mail for two centuries." It was still more gratifying to hear you say, "It could easily be the trusted third party in cyberspace, providing the secure delivery of the nation's private E-Mail messages." Mr. Chairman, we hear you, and we're willing to accept that responsibility. And we will continue our efforts so that 1 day soon, we can deliver on that vision.

Despite the record achievements of our employees and our efforts to prepare for tomorrow, I must voice my deep concern about the future of the Postal Service . . .

and the future of the mail. There is much at stake here . . . for the millions of Americans, in communities large and small, who depend on our services to communicate with everyone, everywhere, every day.

Yes, our business continues to grow. But that growth is being overwhelmed by growth among our competitors in the communications industry. We're losing market share in four of our six product areas. And two-thirds of our revenue stands vulnerable to the bits and bytes of electronic communications.

Unfortunately, we are hamstrung by laws, rules, regulations, and red tape . . . outdated constraints that are holding us back from delivering even better service and financial performance to the American people. Our problems fall into three areas: people, prices, and products.

Postal employees are tangled up in work rules and regulations that heighten conflicts and block teamwork and cooperation. Instead of resolving contractual problems, arbitration creates them, pushing both sides to polar positions. Multiple appeals processes prevent us from holding some employees accountable for their performance. And outmoded compensation rules prevent us from rewarding others for outstanding effort.

Our price-setting process is out of sync with the speed and direction of modern business. It takes too long. It costs too much. It's too inflexible. We can't offer volume discounts or create contract service arrangements with our domestic customers, steps our competitors can take.

Our products are out of touch with the marketplace. In many cases, customers pay for what they're sending, not when they want it to get there. And it can take more than 10 months to price a new product and bring it to market. In the meantime, competitors have come and gone, cashing in on the new business opportunities.

Our inability to compete threatens the future of the mail. Not today, or next week, but in the years ahead, I'm concerned that erosion of the mail will eventually make it impossible for us to provide an affordable, efficient mail system that serves all Americans. And that troubles me greatly. The mail is a lifeline of communications for millions of the people of this nation. Many small businesses do business by mail. It's how millions of Americans pay bills, buy merchandise, invest in their futures, keep up with the news, and stay in touch with family and friends. In some remote areas of Alaska, people rely on the mail to get their groceries.

Mr. Chairman, with the help of this Subcommittee and the House Subcommittee on the Postal Service, we can take steps now to ensure a viable mail system in the next century.

The Postal Reorganization Act of 1971 has served us well, but it was created a quarter century ago. No one could envision then the magnitude of the changes that would take place in the following 25 years. We have to update this law. We need to bring the Postal Service into the modern communications age and get it ready for the century of service ahead.

Over the past several months, I've talked with thousands of customers. I've met with Members of Congress, and listened to industry leaders and the heads of our unions and management associations. One clear message has resonated through all these visits. Luis Jimenez, Vice President for Arthur D. Little, put it this way recently: "It's not a question of whether the Postal Service must change. The question is how much it will change, and how quickly it will do it."

Three weeks ago, we held an international conference called FuturePost '95 to explore the best business practices from postal systems around the world. The Governors and top officers of the Postal Service took part, along with CEOs of some of the nation's largest businesses, prominent postal customers from all of our product lines. We also invited leaders of the various mailing associations . . . the presidents of our unions and management associations . . . the Governors of the Postal Service . . . the Chairman of the Postal Rate Commission . . . and Congressional staff to meet and talk with the heads of five of the world's most progressive postal administrations. In follow-up to the discussions, we've asked the CEOs to work together to develop recommendations of the changes they feel should be made to the U.S. Postal Service. We expect to receive these papers in a few weeks, and look forward to letting you hear the "Voice of the Customer," too.

FuturePost '95 was an eye-opening event. I found it stimulating to compare business philosophies with my peers and private sector leaders. It was familiar to hear about past market and regulatory obstacles, and reassuring to learn that other postal systems have found ways to overcome them.

And, I must admit, it was frustrating to hear again and again about the business freedoms afforded our peers around the world, freedoms that are helping them deliver communications excellence to their customers and produce profits for their gov-

ernments . . . but freedoms that are not in place here in the United States. There are lessons to be learned, and opportunities to be pursued.

New Zealand Post—Prices

New Zealand Post is one example of what a government organization can do when it's set free to run like a business. The Post became a state-owned enterprise in 1987 with a clear mandate to achieve profitability, and more importantly, the legislative tools to accomplish that mission. It was given a very limited monopoly over light-weight letters to ensure universal service. And it was released to set its own market-based prices, with the only restriction being a price cap indexed to the economy for letters.

New Zealand Post took what some people consider radical business steps. It replaced many small post offices with franchised retail outlets and stamp retailers, and downsized its work force by about 40 percent. But it has met its performance objectives, and more. It's turned a profit each of the 8 years since it was commercialized, in addition to paying the same corporate taxes levied on all New Zealand companies. Over that 8-year span, the Post has increased its letter rates only once. It currently charges 29 cents U.S. for delivery of basic letters, and it's preparing to roll back those rates . . . to 25 cents. At the same time, it provides universal service at a uniform price for basic letters, and meets its service standards 96 percent of the time.

Sweden Post—Products

Sweden Post is a good example of product freedoms taken to the next level. Like New Zealand, Sweden Post is a government-owned company. The Post is free to set its own prices, acquire and invest in other companies, and form joint ventures. It's Sweden's leading provider of electronic as well as hardcopy communications. Companies can even send electronic messages to one of the Post's subsidiaries and have them printed and delivered by the local office at the final destination. The Post's retail outlets also provide a wide range of bill paying, banking, and financial services for the convenience of its customers.

Eighteen months ago, the letter mail monopoly was removed and the postal market in Sweden completely deregulated. Even in this period of transition, Sweden Post has met its overnight delivery commitments 96 percent of the time and continued to turn a profit for the nation, as it has every year of this century.

Australia Post—People

Australia Post shows us how problems in work force relations can be turned around. Australia corporatized the Post in 1990, forcing the organization and its employees to face some dramatic changes—a new obligation to generate a profit . . . reduced monopoly protections . . . and expanded private sector competition. After decades of strikes and work force volatility, management and labor came to realize that they had to learn to cooperate, or they were doomed to fail.

Everyone stepped up to their responsibilities. Representatives from all sides held a "peace conference" beginning at one mail center to identify problems and recommendations. The peace process then spread to other locations, ultimately producing a joint statement of understanding between the Post's top management and the head of the primary union.

It's taken change on all sides, too, according to Managing Director Graeme John. He reported that the Post has taken steps to "train away" autocratic management styles and instill more flexible leadership skills in its supervisors and managers. Quality is taught hands-on in the workplace instead of dictated from above. The unions have come to realize that their viability depends on the corporation's success; they are active in corporate decisions and performance improvements. And employees have accepted greater levels of responsibility and contributed more to the equation.

The results are significant. Employee disputes have dropped 95 percent. Since corporatization, labor productivity rates have improved each year, rising from 1 percent in 1990 to 6.8 percent in 1994, more than double Australia's national average. On-time delivery is at 94 percent. Profits before taxes have grown seven fold. Australia Post's overall performance has earned it a "triple-A" rating from Standard and Poors.

Clearly, there are lessons to be learned from these and other progressive postal administrations around the world . . . lessons that can be put to work here in the United States. I look forward to reading the recommended changes put forward by the nearly two dozen business leaders who took part in FuturePost '95, which we will share with you for the record.

Mr. Chairman, I still remember your words from the conference 2 weeks ago: "The Postal Service is a national treasure, a vital organization made up of outstanding

people." I couldn't agree more. Our performance has come a long way in a year. We've achieved a delicate balance between good service and strong finances.

Ladies and gentlemen, with your help and that of our House Oversight Subcommittee, we can take the next step. We can update postal legislation, reform our system, and raise our performance to a new level. The course of change that we choose must also strike a delicate balance . . . a balance between cut-throat competition and regulatory inertia, between profitability and social responsibility. But I'm convinced that working together we can make the U.S. Postal Service an organization that can deliver value and excellence in the next century.

Senator STEVENS. Thank you, Mr. Postmaster General.

We do have a bill on the floor. We do not know how long it is going to be until a vote, but I am sure you understand what the situation is when we have the Senate in session. It is on the defense authorization bill.

Senator Cochran has gone to the floor. He will submit a few questions and we request that you answer them in the record. We should be able to submit them to you today, I am told. There may be other questions coming from other Members.

Senator STEVENS. In order to keep this balanced, my good friend here from Arkansas, I propose that we run the clock on ourselves, so why don't you set it for 10 minutes and I will take 10 minutes and then you can take 10 minutes, and if others come in we will try to work them in.

Let me start right off with an issue that is very disturbing to many of us. I have read your comments and seen the recent announcement you made, but there is a troubling growing trend of violence in the workplace and the Postal Service has had its share. The most recent incident in California was one of those circumstances.

The Subcommittee has received telephone calls and letters from Postal Service employees around the country who expressed concern about their safety. As a matter of fact, I had some talks with many who are very firm supporters of the right to keep and bear arms about what we could do to help the Postal Service with regard to this particular issue.

The Postal Board of Governors, I note, did endorse a resolution that states that any employee who brings a gun into a postal installation will be immediately fired. I know that that is against the law to begin with. But what I am asking you today is, is there a need for any outside investigation into the genesis of this problem related to violence in the workplace, particularly with guns? Is there something that we may do?

I understand that the union organizations are concerned that automatic firing does not protect the due process right for employees. I have got to say that I am normally very supportive of those rights, but in this instance the volume of expression from individual employees concerning their personal safety has disturbed me greatly. We would be pleased to have your comments, Mr. Postmaster General.

Mr. RUNYON. We feel very strongly about the possession of firearms in our premises. We just think it should not happen. No matter who it is, whether it be a manager or a postmaster or any one of the crafts, they are going to be fired for this, no ifs, ands or buts. In the past we have done that and then people find ways to work around it, but we are not going to do that.

Senator STEVENS. Are you charging them? Are you charging them with the crime they committed when you found them on the premises?

Mr. RUNYON. Yes, sir.

Senator STEVENS. Have you authorized your people to be the complaining person to file the charge on behalf of the government against people who bring guns onto Postal Service premises?

Mr. RUNYON. Yes, we have and we will fire them immediately. That is what we are saying right now. It has always been against the law to bring firearms into a postal installation, and we have dealt with it, but not harshly or strongly enough. We need to deal very strongly with it and make it stick.

Senator STEVENS. Well, the law is there to publicly hold these people up to the processes of the law, and that is to file complaints against them promptly and to have them arrested before they commit violence.

Mr. RUNYON. Right.

Senator STEVENS. If they have brought guns onto your premises, they should be subject to legal process immediately. I think if that were known, it would be a deterrent. Have you authorized that, Mr. Postmaster General?

Mr. RUNYON. I do not know whether we actually have a person who goes to court with every one of those cases. I am hearing you say that we should do that, and we certainly will look at stopping that.

Senator STEVENS. I am not sure that you should represent yourself in the court—I think the government has attorneys already, U.S. Attorneys offices. But I do think that someone has to come forward and be not only authorized, but directed to file those complaints against anyone who brings a gun onto the premises of the Postal Service.

I think the employees need to know that there is someone there who is immediately going to file a complaint against anyone who brings a firearm or a dangerous weapon onto the premises of the Postal Service. There have been just too many people harmed by the failure to have that warning out in advance, I think. Let us know if you have that directive. If you do not have it, I would urge you to consider it.

Mr. RUNYON. We certainly will, and we will supply the answer to you for the record.

Senator STEVENS. Last November—we are shifting gears now—my friend Senator Pryor, when he was Chairman, convened a labor-management relations hearing. The General Accounting Office reported their findings and made several recommendations for change.

My question to you now is—and I am probably jumping ahead of him—what is the movement towards implementing the suggestions made by GAO, and have you seen any improvement in labor-management relations since that time as a result of the initiative of my friend, the former Chairman?

Mr. RUNYON. We proposed that we have a summit meeting with all of our union heads as a result of that GAO report, and we suggested that in November. We have not had acceptance by our union people, except one union has agreed to do that. Three unions have

not agreed to do that. The reason I am being given is that negotiations are still under way in a contract. We would still like to go ahead with figuring out other problems. That is in arbitration right now. We need to figure out what we are going to do better together. But really nothing has happened as a result of that, in direct answer to your question.

Senator STEVENS. There are not even informal discussions following up on the GAO suggestions?

Mr. RUNYON. I guess I would have to let Joe Mahon, who is with me here, answer that question specifically. He deals with them on a daily basis.

Senator STEVENS. Mr. Mahon?

Mr. MAHON. Good morning, Senators.

I guess the short answer to your question is no, and the reason is that the conventional wisdom regarding labor-management relationships, which I think needs to change, is that while you are in negotiations, all joint efforts, all cooperative efforts have to be put on hold. I think that is a strong sign of the immaturity of the relationships.

We are going to have differences over economics, we recognize that. We recognize their political concerns. I think they understand our positions regarding wages. We have to get away from the notion, especially when the process takes a year to resolve, that everything gets put on hold.

Senator STEVENS. Are you getting any advice of counsel to that effect yourself? Is the Postal Service being told do not do this because——

Mr. MAHON. Not at all. No, it has nothing to do with legal obligations. It has nothing to do with our action. I have urged that we get away from this notion. We can disagree over wages. We can go through the statutory process to resolve that disagreement. But while that is going on, let us work on the relationship issues that our employees tell us about in an employee opinion survey and the GAO told us about.

Senator STEVENS. I will leave that to my friend here. He is going to have some questions. I do believe we should consider amending the law specifically to spell out that there should be an avenue for informal adjustment of other problems while you may be in negotiation and on appeal from negotiations concerning another specific problem, and that there should be some bar to using anything that would be said or done or filed or anything that comes out of the informal relationship in terms of the problem that is following the formal trail of appeal and arbitration. But, we will have to wait and see what Senator Pryor wants to say about that.

With regard to restructuring, Mr. Postmaster General, you have stated that you have gone through a substantial change. One of the reasons for that restructuring was to reduce the number of employees by targeting some of the management layer problems. I understand that part of it was to just basically reduce the overall Postal Service employment.

I would like to have your comments further on that, and also on that the problem that we discussed once before, the concept of dual-head at Postal Service locations. What has been the develop-

ment following restructuring on those problems—of layering, total employment, and this dual-head situation?

Mr. RUNYON. Our first objective in the restructuring was to reduce the levels of management that we had and to reduce our overhead costs, and so that was the thrust of the whole reorganization. We have reduced the layers of management that we had and we have reduced our overhead costs as a result of the restructuring.

We did divide it into two heads at the area level. That worked very well for about a year, and then it was not working very well, so we changed it again and we put the customer service and the process and distribution side together under one area vice president and made them an officer of the corporation. Instead of having 20 area managers, we now have 10. They have the responsibility for both sides of the house, and that again has helped us very much.

When you make organizational changes, what you are changing can be very helpful for a while. Then as you work in that change, you find out there are other changes that need to be made. There are always going to be changes necessary in this world we live in. If you do not make changes, you are going to be well behind. But we did make some changes. We now have that under one head in each area, and we think that is working very well.

They are looking at the areas below them to determine what other changes need to be made. In some places, a change should be made in a certain way they do business, and in other places that is not necessary. It depends on what is actually taking place there.

We have here in Washington made a metro manager who is in charge of all of the performance clusters in this area. We are trying that to see how that works, and that is working fairly well, too. So I think that our change was successful. We have changed again, and in all probability as time goes on, where we see change is necessary, we will make it. You have to always be alert to what you need to do to improve your operation, and we have done that.

I think that it has been fairly successful because of what you see the results are today. Today we find that we are able to work on cost reduction and delivering good service at the same time. My philosophy is that if you deliver good service, your cost will be lower, because that means that you do the right thing right the first time. And when you do that, the cost is less.

Senator STEVENS. Did I mention to you a book called "Harmony," the new piece by the head of Bell Labs who has done this analysis of the developments of our economy and community and the inter-relationship between computers and telecommunications and reorganization?

Mr. RUNYON. You had mentioned it, but I have not read it yet.

Senator STEVENS. I would commend it to you right at this point of your changes in the Postal Service. I think it is some very in-depth analysis of where we have been and where we are going.

Senator Pryor?

Senator PRYOR. Mr. Postmaster General, I remember the days when you were just about to take over the reins and become the Postmaster General of the United States. By the way, I, too, want to add my comments to those of Senator Stevens and Senator Cochran. I did not see the paper this morning. I was not aware of the

Postal Governors decision and invitation. I think that was a wise one.

I remember right as you were assuming your position as Postmaster General, if I might characterize it like this, there was a great fear throughout the entire Postal Service organization that said, oh, my gosh, here comes Mr. Runyon, look what he has done in past operations with Ford and Nissan and TVA, he has downsized, he has fired people, we are not going to have a job, and no one is going to be out there to deliver the mail.

Well, while you certainly did downsize at the beginning, what has really happened—and you correct me if I am wrong—you have added 30,000 people to the payroll of the postal system. Now, why has that happened?

Mr. RUNYON. That blows the myth, does it not?

Senator PRYOR. Well, it really begs for an answer, I think, and certainly I would like to pose that question.

Mr. RUNYON. When we went through the restructuring, we did down-size and we reduced some 23,000 people from the roles at that time. However, since that time, we have grown. The amount of work we do has grown. We have I believe over 13 billion more pieces of mail to deliver. We have 3.5 million more addresses to deliver to. As you add that, that requires people. I mean the people that are there now cannot do that.

I was just out in Denver and they were showing pictures of Las Vegas, pictures taken from a satellite that showed what it looked like 10 years ago and what it looks like now. There are a whole lot of new buildings and homes there. That takes letter carriers to go to those places.

We should have, by all that is right, added 63,000 people. Well, we find ourselves only 30,000 people added. So we have done some efficiencies at the same time that our volume has grown, and we hope that our volume will continue to grow and we will continue to look at productivity gains and what we can do to reduce the amount of effort required. That is part of our reclassification effort that we have put in place.

We would like to see people who use the mail do more of our work in preparing the mail, so that we can run it through the automation and not have to have a lot of people do the sorting and things of that nature. That is what costs us money. If we can run it through the automation, then we can do it at a cheaper rate and not raise postal rates.

Senator PRYOR. You mentioned effort two or three times. What would happen, given this hypothetical, if we just backed off and just walked away from the international mail business? Some people do not think we ought to be in it and we have not made any money. Some people say it has been a failure. What would happen if we would back away from the international mail business, sell the airplanes, give up the leases and totally concentrate our efforts, our resources, our dollars, to make mail service better domestically? What would happen to us?

Mr. RUNYON. One thing we would do is lose immediately \$1.2 billion of revenue.

Senator PRYOR. I know, but we are losing money on international mail. Is that not correct?

Mr. RUNYON. I do not think we are actually losing money on international mail. There are a lot of things we can do with international mail that we need to do. One of the things we have not done is do a good job of international mail. We probably——

Senator PRYOR. Then why are we in international mail?

Mr. RUNYON. Because we need to be in international mail, because the companies and businesses in this country want to send mail overseas and they want us to do a better job, and we need to do that job.

We have recently reorganized the whole international organization and we are going to improve that. We think that we can grow that business by about \$3 billion over the next few years, and then help the Postal Service in that regard.

One of the problems that we have had with international mail is we just have not paid much attention to it. We pay attention to domestic mail more, and so we do not pay enough attention to it. That is why we have now created an organization that is going to pay attention to it. We are going to be having only a few areas where international mail comes in and goes out of this country.

I think you might be able to help me, Mike. We have got about 50 places now and we are going down to——

Mr. COUGHLIN. We are going to go down to about seven key concentration centers for the processing of international mail.

I might add to the basic question, Senator, what it does for us domestically is it helps keep all of our rates lower. The fact is that international mail does make money. You might have been thinking about our losing market share in the international market as opposed to losing money, and that is the case. It is very competitive, but it is a very big marketplace. But, as Mr. Runyon said, it is over \$1 billion in revenue, and a substantial part of that helps hold down our overall institutional costs, and that is a burden, if it was not contributed to by international mail, it would have to be picked up domestically.

Senator PRYOR. But it would not help hold down institutional costs, if you were getting in \$1 billion and the cost was \$2 billion to perform the service. We would be losing \$1 billion.

Mr. COUGHLIN. My point, Senator, is it is not costing us \$2 billion. It is costing us something less than the total revenue, the actual attributable costs.

Senator PRYOR. I just think the international mail is going to be under increasing scrutiny. I think if we are going to stay in that, I just hope we will concentrate on it. If we are not, I wish we would pull out of it and concentrate on doing better work here.

Mr. RUNYON. We definitely are going to concentrate on it, and I would be glad to have some of our international people and myself to come in and talk to you about what our plans are. We are planning to get into that in a very large way, increase our revenues and increase our profit margins there, so that we can help underwrite the costs of domestic mail.

Senator PRYOR. I would like to shift gears a moment. Senator Stevens brought the subject up of the relationship between employees and management. I must say that I am very disappointed that your invitation was not accepted. I understand that one of the unions did accept the so-called invitation. Whether it was extended

formally or not, I do not know. Maybe you did not have an RSVP. I think it was the Rural Letter Carriers.

Mr. RUNYON. Yes, sir.

Senator PRYOR. I think that they said yes, we would like to come forward and have these discussions. I just cannot stress enough what I think just a simple informal, if necessary, session with the postal unions and yourself and your management might do. I am just going to stress it every time I see you and every time you come before this committee, as long as I am here. I just think it is necessary for the good of the public. I am going to do whatever I can to get the unions to be more positive about accepting your invitation to get together.

Mr. RUNYON. Senator, when I first came to the Postal Service, I think it was May 5th, there was a press announcement that I was present here. I did not go to work until July, but the press announcement was made in May.

The first meeting I had after that press announcement was with the heads of the unions and the management associations. I did that before I met with the management of the Postal Service, so that I could show them my feeling toward them and wanting to work with them. I want to work with management, too. But I wanted to make sure they understood what I felt I was getting into, and I wanted their support and I wanted to help them in the things they needed.

Then after that I had some meetings with them between the time that it was announced and I came to work. Then the first day I came to work, before I reported to work, I had breakfast with each of the union leaders and association heads and I told them what I had learned over 2 months and what my plan of action was. I told them and told them I wanted to work with them, and I continue to do that.

That is why I invited them to attend our leadership meetings, so that we did not have any secrets from them. In the past, we would have management meetings and make a decision on what we were going to do, and then just before we would announce it, we would call them up and say here is what we are going to do. We stopped doing that, so they could be there when we were in the process of making decisions, to know how we reached those decisions, what input went into it, and they had input into it. So those are the kinds of things we tried to do.

Senator PRYOR. I know my time is just about out. But maybe it would be better to not characterize the meeting with them as a summit. It is sort of heavy-sounding and a lot is always expected of a summit. Maybe you could ask them to go fishing with you some day or something like that.

Mr. RUNYON. That is a good idea.

Senator PRYOR. I remember, Senator Stevens, the first time I was ever in the Reagan White House, I was a fairly new Senator around here. He was lobbying for a vote and I got to go upstairs in the family quarters for the first time in the White House.

I was in awe, because I saw a telephone over there that looked a little different and I assumed that was the phone that you would pick up and it would ring on the desk of then, I guess, Mr. Brezhnev. I said, "Mr. President, with all respect, is that the magic tele-

phone?" He said, "Yes." I said, "Why don't you pick it up and ask Mr. Brezhnev to go fishing with you some day."

I do not think that ever occurred, but stranger things have happened. People have got to get together, if we are going to compete internationally, if we are going to deliver the goods and do the good work for the people. We have got to communicate better.

I thank you for trying, and I will urge the other parties to try, too, and accept your invitation.

Mr. RUNYON. Thank you.

Senator PRYOR. Thank you, Mr. Chairman.

Senator STEVENS. I certainly concur in that fishing trip, that is for sure.

Mr. RUNYON. It is sounding better all the time.

Senator PRYOR. This man is a great fisherman, I can tell you that.

Senator STEVENS. I think there is a lot of communication that takes place on a fishing boat because there is a long time between strikes, I mean strikes of the good kind. [Laughter.]

That is a nice idea. We ought to figure out how we can do that. We could take some of your union people and some of your management people and I will show them some nice rivers, might even guide them a little bit, too.

Senator PRYOR. The Kenai River, I would not be surprised if that is not where he is thinking.

Mr. RUNYON. I have been to the Kenai River.

Senator PRYOR. I have, too.

Senator STEVENS. Let me go back, if I may, to the concept of postal reform. We had a reorganization in 1970, and it is now 1995. You indicated in your opening statement that you think that we have new problems and your customers have new problems. I am impressed with your statement about your customers' papers that you are going to receive. The thought crossed my mind that perhaps we should ask that you find out if those customers would like to come after they have presented the papers to you and present them to us.

I would like to consider having a hearing and listen to the customers tell us on the record what they see needs to be done to assure that you provide through your organization the service that they will need in the future. But it is probably because of the fact that I have been here since that 1970 Act that I think you are right—25 years having gone by and we ought to try to see what we can do to revise that Act so that the Postal Service can survive and perform and meet the needs of another 25 years.

One of our friends has suggested—and this is a question I have been asked to put to you—that we form a commission on postal reorganization. He knows that there is a group of us working on a bipartisan bill to create a new Hoover Commission to deal with the whole concept of executive branch reorganization. Do you agree with him that if we go in that direction, you should have a separate organization, or do you feel that you have enough connection with government, that if we create a Hoover Commission, it should be authorized to look at the Postal Service?

Mr. RUNYON. Well, we definitely have connection with the government from that standpoint, so that would work, I think. I think that when the——

Senator STEVENS. Both are government entities and you are not a total government any more.

Mr. RUNYON. Right.

Senator STEVENS. And that is why it has been suggested that we have a separate entity, a commission on postal reorganization, as we had once before, to give us an independent review of the organization and its needs for the future.

Mr. RUNYON. When the Kappel Commission was formed, as I understand it, the Postal Service was in very much disarray.

Senator STEVENS. Right.

Mr. RUNYON. I would like to think that we are not in that much disarray at this point in time. I would like to think that those of us in the business that are performing the services know the kinds of things that are troubling to us, that control us to the level that we cannot function in a competitive manner. I think our customers know those answers. I think the idea of having those customers come before you and testify would be very good. I think that it would be good.

Senator STEVENS. Do you think they would come?

Mr. RUNYON. Yes, sir. They have asked if they could come. They have asked me if they could come. Of course, I do not run that.

Senator STEVENS. You tell them they will be invited in September.

Mr. RUNYON. Very good, I will do that.

Senator STEVENS. Can we expect their papers before that?

Mr. RUNYON. Yes, you can. Also, I have been told by the leaders of these foreign administrations, the Post, that they would be willing to testify before this committee, if you would so choose to have them.

Senator STEVENS. You have jumped ahead of me. That was going to be my next question. In view of the review that you have given us of New Zealand and Australia and Sweden——

Mr. RUNYON. Great Britain, Sweden, Canada.

Senator STEVENS. We do not have any authority to request them to come, but if they would volunteer to come, we would be very pleased to have a session with them. Would you not agree, Senator Pryor?

Senator PRYOR. Absolutely.

Senator STEVENS. We will consult with you as to whether we invite them before or after the U.S. customers. I think it would be better to listen to our own people first.

Mr. RUNYON. Of course.

Senator STEVENS. But whatever you decide, we will consult with you.

With regard to where we are going, the thing that bothers me, and I think it bothers my friend too, is the continued labor-management problem. I do not know how to inject or reinject the public service concept into that relationship. I am just asking you to think about that and see if you want to give us any suggestions.

I do believe that we do have special benefits under our law for the Postal Service, and it benefits customers, management, and

those who provide the labor for the Postal Service, and that there has to be a working relationship not only with the public, which I think you are working out and trying to do, but there has to be a better relationship with those who provide the labor to the Postal Service. We need to find a way to deal with that. Senator Pryor has been in the forefront of that and we will continue to try to see what we can do.

My last question in this round would be about the universal service requirement. I noticed with interest that you left out that one recitation concerning New Zealand, and your comment was about the universal service. It was given a monopoly over light-weight letters to insure universal service.

Now, you have a monopoly on first-class mail. It is not limited; it is total. And you have a universal service requirement that goes along with it. I think the one thing that separates us from those people who want to totally privatize the Postal Service is the feeling that there still is a necessity for the first-class monopoly and there is still a necessity for universal service.

You carry your universal service requirement beyond the monopoly, into parcel post and a lot of other services you are providing now. But you do not have the monopoly out there in that area. You have got substantial competition in parcel post and some of the other services.

Do you believe that we ought to review and change the scope of the monopoly or the scope of the requirement for universal service?

Mr. RUNYON. I think we need to maintain universal service at a uniform price. I think we need to do that. The other countries—and I will bring them in one more time—have universal service, too. No matter how much they have commercialized, and they have all commercialized, none of them are privatized, they have commercialized. So I think that feature is absolutely necessary.

I think that where we have to provide universal service, there definitely should be control over pricing in that regard. It is a monopoly that we have, and we understand that. But I think we need to maintain that. At least we need to maintain it until we can set about on the road to change and go down that road a ways to see how we would handle that once we make some changes.

This is not something that I think we can just change overnight. I think this is going to have to take progressive changes. We need to make some changes in the way we do a lot of the things that we do, and we need to be given some freedoms, some freedoms in pricing, some ability to be more flexible in how we deal with our customers.

Senator STEVENS. In the area that you do not have the monopoly, is that right?

Mr. RUNYON. Right.

Senator STEVENS. You do not seek that freedom in the first-class mail area?

Mr. RUNYON. No, that is not what we are seeking. What we are seeking is the ability to deal with the large customers on the basis of what we can do for them.

We recently had a contract with J.C. Penney that went to UPS for \$1 billion. J.C. Penney thinks we do good work. As a matter of fact, the Chairman of J.C. Penney was there at our meeting and

spoke very highly of what we do, but yet he was the person who signed that contract. One of the things that he wanted would not have cost us money, it would have made us money, but we could not do it because we are not flexible enough to make offers to other customers like that

Senator STEVENS. I've heard about that. I am trying to find out from you what provision of our law leads to the inflexibility that lost you that contract.

Mr. RUNYON. Well, any change that we would make in a situation with him we would have to send back to the Postal Rate Commission at this point in time.

Senator STEVENS. You did not have to send back to the Rate Commission when you gave a discount for people who bundled, right?

Mr. RUNYON. To bundle?

Senator STEVENS. You gave a discount for people who presorted and bundled according to ZIP Code at the very beginning, right?

Mr. COUGHLIN. If I could add to this, Senator, on the issue of this contract, the kind of thing where we were——

Senator STEVENS. Wait a minute. Do not step to the contract. I want to try to get a progression. Did you have to submit to the Postal Rate Commission when you made those innovations, if people sorted, presorted and bundled for ZIP Code, you gave them a discount.

Mr. COUGHLIN. Yes, we had to submit it to the Postal Rate Commission.

Senator STEVENS. That went to the Commission?

Mr. COUGHLIN. Yes.

Mr. RUNYON. Yes.

Senator STEVENS. Then I am misinformed. I understand it.

My time is just about over. Go ahead, Mr. Coughlin.

Mr. COUGHLIN. To the contract, and it was not just this contract, there have been other situations, as well, here recently. Our problem has been the ability to respond flexibly to the requirements of the person who is asking for the service in terms of things like volume discounts, the ability to offer services within a rate band, and those types of things.

Senator STEVENS. I understand. I thought that prior flexibility was without regard to the Postal Rate Commission.

Senator Pryor?

Senator PRYOR. Is the flexibility that has been discussed here for the last few moments, does that come under the category of product? Is that one of your three legs of the stool, people, price and product, or does that come under price?

Mr. RUNYON. It could be either. An example of whether it is product or price would be we ask for a different rate from the Postal Rate Commission for small parcel rates. If someone would give us 250 parcels under 5 pounds, we would reduce the cost to them 27 percent.

Senator PRYOR. Do you have to go to the Postal Rate Commission for that sort of a decision?

Mr. RUNYON. Yes.

Senator PRYOR. How long does that take?

Mr. RUNYON. That took 10 months and it came back that we could reduce our costs 7 percent. You see, the people who we are competing with in that have the right to intervene. Our competitors have the right to intervene and present evidence to the Postal Rate Commission that they accepted in this case, apparently, because they would not let us have the 27 percent. They said we could reduce 7 percent. But we did not do that. We did not take the opportunity to reduce 7 percent, because what we would be doing is giving up 7 percent, but we would not get any more business for that. You see, we knew we had to go to 27 percent to get business so we could make it worthwhile.

Senator PRYOR. Give me an example, if you would, of product. Give me one or two examples of a product that you would like to have, but you have been denied. Have you submitted these to the Postal Rate Commission?

Mr. RUNYON. Do you know of a specific product?

Mr. COUGHLIN. I think the most visible recent example is the bulk small parcel category.

Mr. RUNYON. That is what I was talking about.

Senator PRYOR. But do you have others, or was this the only product that you—

Mr. COUGHLIN. We have got a whole slew of ideas.

Senator PRYOR. But none pending before the Postal Rate Commission?

Mr. COUGHLIN. I was trying if there is any—the problem with reclassification, that is a fairly significant change.

Mr. RUNYON. If we come up with a new product that we would like to do—and we are looking very hard at products right now, that is one of the things that our marketing people are looking at, coming up with new products—when we come up with a new product, we will have to go to the Postal Rate Commission to price it, and that will take us, if the past holds true, 10 months. If it takes us 10 months, the product will be on the market before we get there and it will be gone, because our competitors will be able then to take that product.

In a normal business where you are in competition, part of the secret of success is when you have a new product, you can announce it and put it in customers' hands at that point in time and establish your price.

Senator PRYOR. Let me shift gears here just a moment. We are awaiting a study that I have requested from the General Accounting Office. I think we made this request last March. It is a very comprehensive study. We anticipate this study being delivered in November. It will look at the private express statutes to see what might happen if—I say if—we would privatize the U.S. Postal Service. It is going to get a lot of attention, because privatization of government services is really sort of a thing right now. It is a buzz word and seems to be somewhat popular in some quarters, at least.

Now, you mentioned Sweden, I believe New Zealand, and perhaps Australia in your opening statement, and you made some comparisons and some pretty good cases there. In Great Britain, I might just state for the record, they have closed since privatization about 800 of their 1,600 post offices and are trying to close about

another 400. I think finally they caved in. It was just too much pressure.

I do not know about Senator Stevens, but I would almost rather close a military base in my State than a small rural post office, because there is an emotional attachment to that rural post office that I cannot describe nor explain to a lot of people who do not come from the rural parts of this great land of ours.

I do not know about privatization. I just wonder if you are going to have comments for this GAO report. Are you and your people participating? I also think that several countries will be looked at and compared with our own system. Would you comment on that?

Mr. RUNYON. I would assume we would have the opportunity, I would hope we would have that opportunity. There is nothing in any of the reforms that we would propose that would close small post offices. That is not on our agenda. We think there is a social responsibility of the Postal Service to maintain that. If you were to privatize it, that would still have to be maintained and people would have to calculate that.

You see, one of the things that worries me about the privatization talk—I am not for privatization, by the way—is that people could come in and pick up what they wanted to do. If they wanted to do Dallas, Texas, then they would do Dallas, Texas, but they would not do the small communities outside Dallas, Texas. Somebody else would have to do that, and then the cost of doing that gets more expensive.

Senator PRYOR. In the health care debate, that was much discussed. When we talked about insurance companies, it was called cherrypicking—insuring only the most healthy of the population. I think I can certainly see where this would occur in the privatization of our Postal Service. Others would take the most healthy part of the country and try to serve those and leave the rest of America to fend for themselves.

Mr. RUNYON. What we talk about more is commercialization, which, by the way, the foreign countries all talk about commercialization. That is the term they use. Commercialization means to make it so we can compete and stay in the business that we are in.

Senator PRYOR. If I could, I want to move back to this issue of product for a moment, because evidently there may be a sort of a standoff between the Postal Service and the Postal Rate Commission. It appears that your relationship with the Postal Rate Commission is somewhat like your relationship with the labor unions that represent so many of your employees. We might think about some ways to improve that relationship once again sit down and say, look, we have got a problem with how much time this takes, maybe you need that much time, maybe you need more time.

Somehow or another, I hope that step will be taken and that you will move forward to see if there cannot be some negotiations on that, because we have got enough problems around here without trying to have a standoff with the Postal Service and the Postal Rate Commission.

Mr. Chairman, I do not have any further questions and I am going to yield back the balance of my time. I want to thank you

for holding the hearing, and I want to thank our Postmaster General.

Senator STEVENS. Thank you very much, Senator. It is nice of you to join us. We appreciate your leadership in this area.

I have got a few questions I would like to pose myself, and I hope we can sort of keep the responses short and we will all get out of here sooner. This is sort of an array of questions that have been relayed to me, and some of the others have asked, too.

Let me first turn to credit cards. You have implemented a system of accepting credit cards. Was that approved by the Postal Rate Commission?

Mr. RUNYON. No, that was not.

Senator STEVENS. Did that not cost you money?

Mr. RUNYON. No, sir.

Senator STEVENS. Do you not pay the same thing other people pay for percentage of revenues handled by them?

Mr. RUNYON. We have made a complete study on that. By the way, GAO made a complete study at the request of maybe this committee, I am not sure. Somebody made a request, at any rate. Actually, we feel that our income will increase by the use of credit cards. We do pay some percentage. I do not know those arrangements, and I will supply those to you for the record.

Senator STEVENS. Is it implemented universally throughout the country, or just in selected areas?

Mr. RUNYON. No, sir. We started in six large metropolitan areas. When we get done, we will implement, I believe it is 70,000 machines are going to go into 33,000 locations. It will be the largest credit card operation in the country when we get done.

Senator STEVENS. Are you going to put it in the rural areas?

Mr. RUNYON. In 33,000 locations, that will include some rural areas.

Senator STEVENS. It seems to me that it would be more cost-effective in rural areas where the problem is trying to handle money and trying to handle security of money. I have not heard of it in Alaska. Is it in Alaska yet?

Mr. RUNYON. It will be starting on the 21st of August.

Senator STEVENS. Good. Remote bar coding was originally to be done by contract employees. In 1993, the Postal Service changed that so these sites would be operated by Postal Service employees. There are several groups up here lobbying Members of Congress and they want to reverse that decision. Did your decision preclude the use of any contract employees at any remote bar coding site?

Mr. RUNYON. That was a result of an arbitration decision. There was an arbitration decision that came down and said that we had to do certain things with postal employees, and as a result of that we reached an agreement with the APWU that we would use postal employees in that and we would use 70 percent transitional employees, 30 percent career employees, so that the cost would be lower. We figured that we have a 20 percent return on investment in that particular thing. We agreed to do that so that we would get a better agreement with labor on other things. That has not worked out very well on the other things yet.

Senator STEVENS. Well, I think you should be prepared for the fact that we believe there will be an amendment offered to one of

these bills that will deal with that question, and I would like to have a statement for the record on that, if you could, which we will use in the event the matter comes up on the floor.

Mr. RUNYON. OK.

Senator STEVENS. In 1981, Barry Goldwater suggested we ought to use postage stamps for increasing revenue and allow advertising on stamps. That was not done because of many obstacles, particularly with regard to first-class mail. But have you given any thought to selling advertising space on non-first-class matter—I understand Great Britain now uses that, I am informed—and particularly with regard to parcel post? A company might be able to advertise their own products on their own packages. Has that been explored again?

Mr. RUNYON. We have explored that several times. It is my information that Great Britain does not put advertising on the stamps. For some occasions, they sell postmarks, they let postmarks be used that have advertising on it. Now, in this country, we do a lot of things through machines, as opposed to stamps, and on those machines there is advertising on the cancellation, so that does happen. But we have had this request—

Senator STEVENS. But graphics have not been permitted, right?

Mr. RUNYON. No, sir. A lot of people would like for us to do that and they would pay a million dollars to get their name on the stamp, their name and logo. But we have enough problems just coming up with a hundred stamps.

Senator STEVENS. The small postage stamps for first-class mail, I understand that. But with regard to the parcel post, I do not know why we could not have an enlarged cancellation or something, if that would increase revenue. Again, someone told me of Barry's suggestion and I wondered if it was still alive.

The House of Representatives has got legislation to eliminate the Postal Service's annual appropriation for former Post Office Department worker's compensation cases. I would like you to tell us for the record what that is, what the sense of that is. I am told that it is about \$37 million. But have you taken a position on that bill? If so, will you send us a copy of the position?

Mr. RUNYON. Yes, sir, we have taken a position against that. It not only means \$37 million this year, but it means \$245 million this year, because once that bill is passed, everything we are going to owe in the future comes due and payable at this point in time.

Senator STEVENS. You recently filed a major reclassification case, and you mentioned that in your opening statement. What does it really mean in terms of reclassification? What are you trying to reclassify, and what impact will it have on first-class mail and domestic parcel post? What is the classification you are seeking?

Mr. RUNYON. Do you want to answer that, Mike?

Mr. COUGHLIN. Senator, it is a broad-based look at all of our classes of mail. But the current filing that is before the Postal Rate Commission only addresses two of our major classes right now, but it is our intent to go forward.

Senator STEVENS. Which classes?

Mr. COUGHLIN. The first- and third-class mail, the two largest classes, are currently being considered. The others will be addressed in subsequent filings. The basic idea here is to get our indi-

vidual mail streams as efficient as possible and to encourage behavior on the part of the mailer that will result in an efficient mail stream.

The overall effect we hope will be to keep the cost of all mail down, including first-class and first-class individual rates. In the immediate case we have filed, it has no upward effect on the individual first-class rate. It could result in lower rates for some of those we are now——

Senator STEVENS. As I understand it, first-class comprises 54 percent of the volume and pays 76 percent of the cost.

Mr. COUGHLIN. That is right.

Senator STEVENS. Does this reclassification change that?

Mr. COUGHLIN. No, that should not change significantly.

Senator STEVENS. Thirty-nine percent of the volume is third-class mail and it is 18 percent of the revenue. I have got to come back to you, Mr. Postmaster General. How do we defend that to our constituents, that the first-class mail where you have a monopoly comprises 54 percent of the mail, but pays 76 percent of the cost?

Mr. RUNYON. First, if I could for the record, I think it is 69 percent, but that is still a lot.

Senator STEVENS. Is it 69?

Mr. RUNYON. I think it is.

Senator STEVENS. I was informed that it is 76.

Mr. RUNYON. At any rate, it is a lot and does not change the question at all. First-class mail is considered the most important mail we have.

Senator STEVENS. Let us correct that. It is going to go out in the press now. Is it 69 percent? You should know.

Mr. RUNYON. Let us supply you with that.

Senator STEVENS. I will take your figure in my question.

Mr. RUNYON. Let me supply that to you.

Senator STEVENS. It is 54 percent and 69 percent, let us agree on the figures so we do not get into an argument about that. In any event, as you say, it is large.

Mr. RUNYON. Right. The fact is that first-class mail is mail that is more important than second, third or any other class, and that is the way that the rates have been arrived at over the years. So this has been going on for a long period of time.

Senator STEVENS. How do we decide that there is a greater institutional cost in handling first-class mail than in handling big packages or anything else? How do we reach that determination?

Mr. RUNYON. Let me answer it, and then I will let Mike give you the real answer. My idea is that first-class mail is what the Postal Service was all about to start with. We are going to have to deliver first-class mail. If we stop getting packages and parcels and all the other stuff, we are still going to deliver first-class mail. To me, the system is set up to handle that, and that is why I think it is necessary, in my view——

Senator STEVENS. Well, someone told me that you have to have post offices that deliver first-class mail in cities and it costs more than building huge warehouses outside of town, and you can use a lot more mechanization to handle packages than you can to handle first-class mail, and first-class mail requires individual handling to take right to the door or to the box in the apartment

house, and that the costs actually are greater. Can we defend that statement? Are they greater?

Mr. COUGHLIN. In terms of the distribution of attributable costs, yes. But the way that these costs are allocated is driven by nine factors that are spelled out specifically in the statute and they include such things as it requires the fairness and equity in the rate schedule, it requires consideration of the value of the service to both the sender and the receiver, the degree of preparation that the mailer has to go through to enter the mail into the mail stream. It also requires us to look at the impact on competitors. There are nine things like that.

But the basic answer is that first-class mail has the highest value in terms of the system. It also has the highest volume in terms of the system, and that is why. It is the accumulation of those factors that adds up to the 75 percent or whatever that number is in terms of the institutional cost of distribution.

Senator STEVENS. Sixty-nine percent, I guess. It sounds to me, Mr. Coughlin, like you threw it right back to me. We put that in the statute and that is why it is, the result of the statute we passed?

Mr. COUGHLIN. Yes, sir, and I am sure that the Postal Rate Commissioner who is sitting in here would tell you they look very carefully at those nine factors in distributing that.

Senator STEVENS. We had a comment that I pass on to you and I want to ask you a question. A constituent recently commented that the Postal Service is overstaffed and is paying too many bonuses to upper management positions. My constituent went on to wonder why the Postal Service is spending money on newspaper and magazine advertisements right after a rate increase. What do you want to say to my constituent?

Mr. RUNYON. Last year, the EAS employees received an increase in their pay of 4.3 percent. The people in the executive level of our organization received an average of 2.4 percent increase in compensation. There was something like I will say less than 20, because I know it is less than 20 that received 12 percent increase as a result of a bonus. Now, there were people that received less than that, maybe 5.6 percent based on a bonus plan that we have. That is not excessive, when you look at what people pay outside.

Another problem we have with pay in the Postal Service is——

Senator STEVENS. Are they productivity related?

Mr. RUNYON. Yes, they were based on our profit and our loss, based on quality and based on our employee opinion survey. So we try to put all of that in there. We do not just put cost in. If you just put cost in, then you will get cost at any price, so to speak, price of service.

Senator STEVENS. What is the extent of your advertising budget in other media, like newspapers and magazines? Do you use tradeouts? Do you understand tradeouts?

Mr. RUNYON. No.

Senator STEVENS. They owe you a bill, you get advertising. Do you trade out?

Mr. RUNYON. No, we do not do that. Our advertising budget for 1994 was \$80 million. Our revenue was \$49 billion. FedEx revenue was \$8 billion, and their advertising was \$44 million, which is .55

percent. We were .16 percent. AT&T was at .76. IBM was at .63. UPS was at .33, FedEx was at .55, and we were at .16. So we are not spending nearly as much on advertising as our major competitors are, when you compare it to how much money we make.

Senator STEVENS. To meet the competition is your answer?

Mr. RUNYON. To meet the competition——

Senator STEVENS. Your competitors are advertising in those same——

Mr. RUNYON. And also to let people understand more about the Postal Service. We advertise, for example, that we do not use tax dollars. Many, many people in this world still do not believe that. I do a lot of traveling and people say I just read that ad and it said you do not use any tax dollars, I did not know that, I thought that you got money from the government to operate.

Senator STEVENS. This lady is one of your constituents and she wanted to know why you were using her money.

Mr. RUNYON. You see, that is the problem. She thinks we are using tax dollars.

Senator STEVENS. No, she thinks you are using her rate dollars.

Mr. RUNYON. Well, everybody uses somebody's dollars when they advertise. [Laughter.]

Senator STEVENS. That would be an answer. You do not have any below-the-line dollars.

The commercial mail receiving agency industry is concerned about the policy that the Postal Service does not currently provide mail forwarding to postal customers of their industry. Is there any other postal customer who does not receive mail forwarding and is responsible for forwarding its own mail?

Mr. COUGHLIN. There are other postal customers who receive some forms of forwarding, but they are in quite different situations than the commercial mail.

Senator STEVENS. Are there any others you deny forwarding to besides the commercial mail receiving agency industry?

Mr. COUGHLIN. Not that occurs to me right off-hand, no.

Senator STEVENS. Why are they different?

Mr. COUGHLIN. Because they are a commercial operation and they have a commercial relationship with their customers. It is a relationship between two private parties, one of whom has been designated to receive mail for the other. We provide that delivery in bulk. For us to forward that mail, we believe very strongly we ought to share the revenue stream and not pass the cost of that on to the broader mail base. That is a fairly expensive operation, the forwarding of mail.

Senator STEVENS. What does it cost to forward a piece of mail? Have you ever figured that out?

Mr. COUGHLIN. Yes. There is a variety of pieces of mail and how you handle it, but on average across all of the pieces that we handle in our markup units, it is about 23 cents apiece. Again, that varies on what——

Senator STEVENS. Two-thirds of the cost of mailing it in the first place?

Mr. COUGHLIN. Yes, but the handling is quite different. You are putting it into a special operation, you have got to look up the address, you have got to take the address change and put it into the

system, you have got to apply the labels and then put it back into the normal mail stream. So it is an expensive operation.

Senator STEVENS. I do not understand the dispute. Did you indicate you wanted a per unit cost for forwarding mail that they have handled?

Mr. COUGHLIN. We have had a number of discussions with a number of these commercial mail receiving agencies or their representatives, and part of our discussion has been, look, if you want us to bear that cost, you have got to share part of the revenue stream that goes with that operation. In other words, you have got to pay us a fee or share some burden with us.

Senator STEVENS. But was the fee the same as an individual forwarding cost or an average of those individuals?

Mr. COUGHLIN. No. No, their fee structures vary I think depending on their own situations.

Senator STEVENS. Again, that may come up. I would like to understand it a little bit more. I have never had much interaction at all with commercial mail receiving agencies, so I do not know what that is. I do not understand the depth of this problem, why there would be a conflict. I would appreciate if we can sort of staff that out a little bit.

Mr. RUNYON. We will do that.

Senator STEVENS. Lastly, you have announced a pack-and-send initiative. What does that mean? Again, is it limited in area where it is going to apply?

Mr. RUNYON. What that is all about is we have customers who ask us to provide that service for them, and so we set up in various locations some test marketing to see how much the customers really want that. But we do have customers coming to us——

Senator STEVENS. Is it a freight forwarding thing? You are going to pack and send packages for them, is that right?

Mr. RUNYON. If they come to us and want us to pack something for them, we can do that.

Senator STEVENS. I am going to take the present for my granddaughter to you and you are going to wrap it and pack it and send it?

Mr. RUNYON. You could do that in a place that does that.

Senator STEVENS. Is that going to be contracted out, are you going to do that with Postal Service employees?

Mr. RUNYON. It could happen either way. Right now, we are just experimenting with that to see how the best way to do that would be. We have had people, I know of one small post office in Texas where they gave some people some space to come in there and do that, to do the packing and the customer paid that packer to do that, and then they brought the package to us.

What you are talking about is where postal employees are actually doing that work. I think that is what you are talking about.

Senator STEVENS. Well, it does have an impact up my way, and that is we have a lot of people that are ordering, as you mentioned, even groceries and everything from diapers to hay. Unfortunately, at one time it was all bricks. The problem really is the requirements of the Postal Service to have them packed in a particular way.

Until now, those requirements had to be met by taking the boxes or whatever it is to someone else to be packed and brought to you. If you are going to find a way that people can bring things to a Postal Service entity and have them packed to meet your requirements at a cost, it is going to make a lot of difference in areas like ours. It is going to change the lifestyle of a lot of people. I would be very interested to see whether that is going to extend to rural areas or you are just looking at a Sears Roebuck type of operation where they bring them to you and you pack them for mailing.

Mr. COUGHLIN. Senator, I think the thrust of this is the consumer, not commercial operations. We are not interested in getting into the business of doing the kind of bulk packaging.

Senator STEVENS. You are not going to palletize them.

Mr. COUGHLIN. The packing that goes on in Alaska, for example, that is not our thought.

Senator STEVENS. And more in direct competition with the people who do the individual wrapping, are you not?

Mr. COUGHLIN. We are responding to our customers who come in the door and say, you now, it would be real nice if I could also get the box and the wrapping here. That is really what we are doing, is responding to our own customers.

Senator STEVENS. Was there not an outfit that started to do that commercially?

Mr. COUGHLIN. There are services all over that do that kind of thing, yes.

Senator STEVENS. And you are competing with them, but you are not going to contract out?

Mr. COUGHLIN. We believe we are responding in this area to the requests our customers say they want for the service they want when they walk into that post office. I happen to believe it is directly related to our basic business, as long as it does not interfere with our ability to deliver.

Mr. RUNYON. A lot of people will not use the U.S. mail, but in many of the places you are talking about they do not send by U.S. mail.

Senator STEVENS. I do not see anyone in the commercial side who is willing to palletize——

Mr. RUNYON. Nor are we.

Senator STEVENS. That is what I am saying. I think you are competing with another initiative from the private sector, but it is a limited competition. I am suggesting to you that there may be a demand out there that is larger than the one you are meeting, too.

Let me thank you gentlemen for your time. We may have other questions. I will ask the staff to notify those people who have indicated they may give you questions that we want them soon. We would like to print this record as soon as we could. There is a great deal of interest in your comments.

I look forward to conferring with you and my colleague from Arkansas about the timing of hearings in September. I would ask that you ask your staff to negotiate with ours and the foreign representatives to see what time would be convenient with them. I am certain we will be here in October and we would be happy to have a hearing in September.

It would be mid- to late September with your own customers, and one in early October with your foreign associates who attended your recent meeting. It may be that we will ask our colleagues in the House if they would like to have a joint meeting with the foreign representatives, so they would not have to make two trips to our country. But I do think that is very important for us to get that in the record so we can understand how they have solved problems so similar to the ones we face.

Thank you very much for your courtesy, gentlemen.

Mr. RUNYON. Thank you.

Senator STEVENS. The Subcommittee is adjourned.

[Whereupon, at 11:18 a.m., the Subcommittee was adjourned.]

APPENDIX

RESPONSES TO QUESTIONS FROM SENATOR STEVENS

Question 1. Do we have a directive designating someone to file criminal charges against employees found in possession of a gun? If not, would you consider one? (Reference, transcript page 26, line 10)

Answer. The Inspection Service's intent is to continue to aggressively investigate all instances which create a credible threat of violence in the workplace and to provide information to postal management for their use in administrative actions and to the United States Attorneys for prosecutorial consideration. I have enclosed a copy of my August 15 letter to you on this issue for inclusion in the record.

Question 2. Does the Postal Service pay a fee like everyone else to accept credit cards? (Reference, transcript page 54, line 15)

Answer. Yes. However, the providers of this service consider that information to be proprietary; therefore, we do not wish to release that information to the public. We would be pleased to discuss this with you privately.

Question 3. We believe there will be an amendment offered on the issue of contracting out remote encoding sites. We would like your statement for the record which we will use if the issue comes up on the floor. (Reference, transcript page 56, line 7)

Answer. The GAO released a report on this matter on September 14. I have provided them with a letter which states our position. The correspondence is attached for incorporation into the hearing record.

Question 4. The House has passed legislation which will eliminate the \$37 million appropriation for OWCP payments for former Post Office Department workers. Have you taken a position on that bill? If so, send a copy of your position for the record. (Reference, transcript page 58, line 11).

Answer. Contrary to the suggestion in the Budget Committee's report, the need for this appropriation continues. While the Postal Service pays all of its employee compensation costs, 24 years after postal reorganization, 2025 Post Office Department compensation cases are still active, and are expected to cost \$36.8 million in 1996. If Congress fails to appropriate the necessary funds, and assigns responsibility to the Postal Service for this item, we would be required to book a long-term liability of \$225 million as an expense in the year the legislation was passed. These expenses must be passed on to current postal customers. I have enclosed a copy of my June 5 letter to you on this issue for inclusion in the hearing record.

Question 5. Senator Stevens stated that while First-Class mail is 54 percent of total mail volume, it provides 74 percent of revenue. Mr. Runyon countered that he believes the correct figure was 69 percent. Please provide the correct figure for the record. (Reference, transcript page 60, line 16)

Answer. Mr. Runyon's statement that First-Class Mail pays 69 percent of institutional costs is correct. These figures come directly from the PRC's R94-1 projections for Fiscal Year (FY) 1995, and are based on their method for attributing carrier street costs.

Question 6. I have never had much interaction at all with commercial mail receiving agencies, so I do not understand the depth of this problem (Postal Service policy of not forwarding mail from CMRAs). I do not understand the depth of this problem, why there would be a conflict. I would appreciate if we can sort of staff that out a little bit. (Reference, transcript page 67, line 16)

Answer. Our policy reflects that the forwarding of mail for customers of commercial mail receiving agencies is provided by the agency operator. This responsibility is reflected in agreements signed by the commercial mail receiving agencies and their customers stating that: "The forwarding or return of a customer's mail is the responsibility of the agent." However, to protect customers from the potential dif-

difficulties that can arise if the commercial mail receiving agency should go out of business, the Postal Service works to ensure that agency customers receive mail that may be affected under those circumstances.

Our policy regarding forwarding is not intended to penalize the agencies or their customers. Rather, it recognizes the significant differences between two different types of mail recipients. One is a direct customer of the Postal Service, receiving mail directly from the Postal Service, such as by residential, post office box, caller service, or regular business delivery. Customers receiving mail under these conditions are entitled to individual forwarding service. By comparison, the customer of the commercial mail receiving agency has selected—and pays—the agent to accept mail from the Postal Service and then redeliver it.

In the latter case, the agent is the Postal Service's direct customer. Individuals receiving secondary delivery are the agency's customers. When mail is delivered to the agency, the Postal Service has completed delivery. It is then the agency's obligation to direct this mail to its customer, either at a lockbox on the agency's premises or by forwarding the mail to the agency customer at a different address. Upon delivery to the agency, the Postal Service's job of delivery has been completed. At that point, the agency assumes responsibility for the mail and whatever ancillary services have been agreed to by the parties, such as mail forwarding for customers who terminate their relationship with the agency. Any expenses the agency incurs through redirecting mail could be recovered by including them in the fee structure for lockbox rental. Requiring the Postal Service to assume the responsibility and expense of forwarding mail for individual agency customers essentially passes along to every postal customer what is now a business expense of the commercial mail receiving agencies. While we recognize the desire of the agency operators for profitability, this would amount to an indirect Postal Service subsidy of the financial bottom line of the agencies.

While we understand the position of the commercial mail receiving agencies regarding proposed changes to our forwarding policies, we do not believe this type of change is warranted. Agency customers have a business arrangement with agencies that provides special service beyond the limits of the ordinary mailstream. As such, it is appropriate that that business arrangement involve full responsibility on the part of the agency for disposition of mail after its delivery by the Postal Service.

RESPONSES TO QUESTIONS SUBMITTED BY SENATOR THAD COCHRAN

Question 1. Mr. Runyon, you point out that mail service across the country is the best that it has ever been, setting new records in the last quarter. Representing a rural state, I am particularly concerned that rural areas also receive improved service and that the modernization, automation, and other improvements underway in the Postal Service will not detract from service to those at the end of rural routes. Do you have separate measures of mail service delivery for rural areas?

Answer. The External First-Class service performance measurement system (EXFC) measures service performance in ZIP Codes within 96 cities which represent 60 percent of the nation's mail volume. It is not designed to separately measure rural areas. However, our Consumer Satisfaction Index (CSI) was developed to measure the level of satisfaction postal customers have with the services provided by their local post offices. Mississippi has three CSI performance groups, Jackson, Tupelo, and Gulf Port and all three have had constantly high levels of customer satisfaction.

Question 2. Has rural service improved as much as overall service recently?

Answer. While we can not specifically quote statistics on rural area service performance, we know that mail is not processed in a segregated way; that is, urban areas processed differently from rural areas. Because we continue to experience improvement in our EXFC scores and Customer Service Index, it is reasonable to assume that all of our customers, urban and rural, are experiencing the same improved service.

Question 3. How will modernization, automation, and electronic communications improve service to rural areas and those areas of the country that may not be as electronically wired or connected as some of the metropolitan and urban areas?

Answer. The benefits of automation are not limited to urban areas. The Postal Service is aggressively implementing Delivery Point Sequencing (DPS). DPS allows carriers to receive their mail presorted in delivery order in both urban and rural areas. Consequently, letter carriers spend less time in the office sorting mail resulting in earlier delivery times for our customers. Currently there are over 7,200 rural routes receiving their letter mail in Delivery Point Sequence. This is an increase of

4,100 routes over the same period last year. In addition, approximately 9,000 rural routes receive Sector/Segment letter mail (mail which is sorted utilizing the ZIP + 4 Code); an increase of 4,200 routes over last year. Based on the mail count, rural route savings from Delivery Point Sequencing and Sector/Segment sortation was \$15.2 million in 1994.

In the area of electronic communications, the Postal Service is committed to providing the best possible service to all its customers. While rural areas are not as wired as urban areas, wireless communications technology can usually provide equal access to those people living in remote areas. As we move computerization and 1-800 help lines out to more and more postal facilities, we have been, and will continue to pursue using wireless communications to provide all of our business and residential customers with the best products and services we can.

Also, the National Performance Review asked the Postal Service to design an infrastructure through which customers could access information and transact business with local, state, and federal agencies using the Internet, home computers, and kiosks. The kiosks will be located in post office lobbies which will be especially beneficial in rural communities. Our Technology Integration team, through its Government/Gateway Program, is now building the infrastructure through which the program can deliver government services.

Question 4. You describe the Postal Service as committed to further reforms to make it easier, more efficient and more cost-effective for nonprofits and mailers of parcels and expedited mail to use the Postal Service. What are some of the reforms you contemplate?

Answer. For nonprofits, we expect to propose reforms that will be similar in overall approach to the reforms already proposed for the corresponding regular rate subclasses in second- and third-class mail. These reform proposals encourage and promotes mailer efficiency. For example, the proposal eliminates unnecessary and outdated preparation criteria and simplifies preparation rules for various mail classes. Also, mailers who apply advanced technology (such as barcoding) to the preparation of their mail which save the Postal Service time and money, will share in those savings. For expedited and parcel mailers, we are still developing and analyzing various possible reform proposals.

Question 5. Are nonprofits involved in their development?

Answer. Yes. Over the past several months, we have had numerous meetings with nonprofit representative and they have had significant input in developing and refining proposals that will affect their mail. Additional meetings are scheduled for the near future and we will continue to work with them until our reform proposals are submitted to the Postal Rate Commission.

MARVIN R. LINDY
Postmaster General



UNITED STATES
POSTAL SERVICE

1995 AUG 16 AM 9:34

August 15, 1995

Honorable Ted Stevens
Chairman
Post Office and Civil Service Subcommittee
Committee on Governmental Affairs
Washington, DC 20510-0001

Dear Senator Stevens:

During the annual postal oversight hearing you asked me a question concerning the arrest and prosecution of employees who bring firearms into postal facilities. The possession of a firearm on postal property is prohibited by Title 39, Code of Federal Regulations, Section 232.1 (f), and Title 18, United States Code, Section 930. Enclosed is a poster used by the Postal Service to advise both employees and customers of the prohibition.

It is the policy of our Postal Inspection Service to respond to all incidents that present a credible threat of violence in the workplace. In any instance where investigation discloses that a postal employee has brought a firearm into the workplace, a report is furnished to postal management for consideration and use in administrative action. Prosecution is pursued in accordance with the policy of the United States Attorney. The Chief Postal Inspector has asked the Inspectors in Charge of the field divisions to contact the United States Attorney for each judicial district within their divisions to discuss our views on the importance of prosecuting these cases and to obtain the current policy of each United States Attorney on the acceptance of such cases for prosecution.

The Inspection Service's intent is to continue to aggressively investigate all instances which create a credible threat of violence in the workplace and to provide information to postal management for their use in administrative actions and to the United States Attorneys for prosecutorial consideration.

Your interest and concern about firearms in the workplace is appreciated. I would be pleased to discuss any additional questions or concerns you may have regarding this subject.

Best regards,

475 L ENFANT P SW
WASHINGTON, DC 20260-0017
202-268-2500
Fax: 202-268-4860

WARNING

**POSSESSION OF FIREARMS
AND OTHER DANGEROUS
WEAPONS ON POSTAL
PROPERTY IS PROHIBITED
BY LAW**

**18 U.S.C. Section 930.
Possession of Firearms and
Dangerous Weapons
in Federal Facilities**

(A) Except as provided in subsection (C), whoever knowingly possesses or causes to be present a firearm or other dangerous weapon in a federal facility, or attempts to do so, shall be fined under this title or imprisoned not more than 1 year, or both.

(B) Whoever, with intent that a firearm or other dangerous weapon be used in the commission of a crime, knowingly possesses or causes to be present such firearm or dangerous weapon in a federal facility, or attempts to do so, shall be fined under this title or imprisoned not more than 5 years, or both.



**39 CFR 232-1(l).
Weapons and Explosives**

No person while on property shall carry firearms, other dangerous or deadly weapons, or explosives, either openly or concealed, except for official purposes.

**REPORT ALL FIREARMS VIOLATIONS
IMMEDIATELY TO THE LOCAL
POSTAL INSPECTOR.**



MARVIN RUNYON
POSTMASTER GENERAL CEO



August 8, 1995

Mr. J. William Gadsby
Director, Government Business
Operations Issues
United States General Accounting Office
Washington, DC 20548-0001

Dear Mr. Gadsby:

Thank you for providing us an opportunity to comment on the draft report entitled, Postal Service: Performing Remote Barcoding In-House Costs More Than Contracting Out.

We agree with the report's principal findings that using postal employees to do the work of remote barcoding costs more than having the work performed by contractor personnel and that the Postal Service took the initiative to improve relations with the American Postal Workers Union (APWU) by bringing the barcoding work in-house. We would also note that remote barcoding, whether performed by contractors or done in-house, is producing significantly more cost savings than alternative, more labor-intensive methods of processing mail that cannot be handled by our automation equipment.

Since we began offering the remote barcoding jobs to current postal employees, as the arbitrator's decision required, we have not had a good response from employees interested in changing to these jobs. In order to staff the Remote Barcoding System (RBCS) sites adequately, and at the same time operate the system economically, we have hired temporary employees who are converted to career status after successfully completing training in compliance with our regulations. As RBCS sites are being initially activated, they are staffed primarily with these temporary employees. This strategy, plus the increasing productivity at the sites, has helped us keep our costs down. Our current costs for operating the system with postal employees are not substantially higher than when the work was contracted out. As the report notes, even when we reach the agreed-upon ratio of 70 percent transitional employee workhours and 30 percent career employee workhours, we will still have a favorable return on investment.

Although we knew that bringing the work in-house would increase our costs somewhat, we decided to do it in order to foster better relations with the APWU. We had hoped that by our making a good faith effort to resolve the RBCS staffing issue amicably, the union's national leadership would have been willing to work with us in similar good faith on other issues as well. We are disappointed that we have not been able to make progress with the APWU in building a productive labor-management relationship.

If you wish to discuss any of these comments, my staff is available at your convenience.

Best regards,

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260-0010
202-268-2500
Fax: 202-268-4860

MARVIN RUNYON
POSTMASTER GENERAL CEO



UNITED STATES
POSTAL SERVICE

June 5, 1995

Honorable Ted Stevens
Chairman Subcommittee on Post Office
and Civil Service
Committee on Governmental Affairs
United States Senate
Washington, DC 20510-6252

Dear Chairman Stevens:

I am writing to bring to your attention a section of the House Budget Resolution that is troubling to the Postal Service. In the report (H. Rept. 104-120) accompanying the House Budget Resolution, there is a recommendation to repeal the annual appropriation for "Transitional Expenses of the Post Office." The rationale is that 24 years after postal reorganization, the need for transitional funds no longer exists. Unfortunately, the explanation for this appropriation is incorrect.

The term "transitional" does not fairly describe the nature of this appropriation, because it has nothing to do with the administrative costs of postal reorganization in 1971, and is not used to fund the past or present operations of the Postal Service. This appropriation, authorized under the Postal Reorganization Act, is used exclusively to cover the liabilities of the former Post Office Department to the Federal Employee's Compensation Fund. In effect, it funds the compensation paid to individuals for injuries which occurred before July 1, 1971, while these persons were employed by the former Post Office Department. This compensation, a cost of business of the former Post Office Department, is a liability of the U.S. Government and the amount appropriated each year is paid directly to the Department of Labor, as reimbursement for compensation payments made in the latest fiscal year.

The responsibility of the U.S. Government for these Post Office Department expenses is consistent with the legislative "contract" that established the Postal Service in 1970. Congress specifically provided in title 39 U.S.C. 2002 (a) (2) that "all liabilities attributable to the operations of the former Post Office Department shall remain the liabilities of the Government of the United States." This "firewall" between the former Post Office Department liabilities and the revenues of the new Postal Service was designed for the protection of future postal customers, who would no longer enjoy a Federal subsidy for the price of postage. It was viewed as essential to secure the financial stability of the new Postal Service, to permit it to charge fair and reasonable rates based on current operating costs, and to enable it to obtain financing at realistic market rates for capital improvements. Without this barrier, the successive deficits run by the old Post Office Department, which was literally expected to operate at a loss each year, would have overwhelmed the efforts of the new Postal Service to become a self-supporting enterprise, financed out of its own revenues.

475 L ENFANT PLAZA SW
WASHINGTON DC 20260-0010
202-268-2500
Fax 202-268-4860

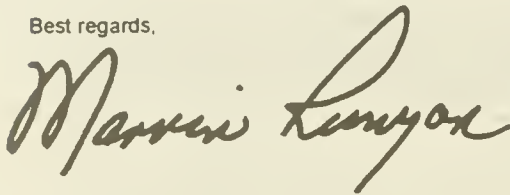
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Contrary to the suggestion in the Budget Committee's report, the need for this appropriation continues. While the Postal Service pays all of its employee compensation costs, twenty-four years after postal reorganization, 2,025 Post Office Department compensation cases are still active, and are expected to cost \$36.8 million in fiscal year 1996. If Congress fails to appropriate the necessary funds, and assigns responsibility to the Postal Service for this item, we would be required to book a long-term liability of \$225 million as an expense in the year the legislation was passed. These expenses must be passed on to current postal customers.

In the context of the immense budget process, our concern may seem parochial. But, our customers have access to an expanding universe of communications "choices," and will take their business elsewhere if we do not provide them with fair and reasonable postage rates. We are concerned that shifting these decades-old compensation liabilities to our current customers would suggest to them that the terms of the legislative "postal contract" were changing to their detriment.

I hope that you will be aware of our concerns as the budget process continues. For these reasons, we believe that the "transitional" appropriation to pay the former Post Office Department compensation claims should be maintained, and that these costs should not be passed on to our customers.

Best regards,

A handwritten signature in dark ink, reading "Marvin Runyon". The signature is written in a cursive, flowing style with a large, prominent initial "M".

Generations

The America we serve; the America we are.



The 1994 Annual Report
of the Postmaster General

Generations

The America we serve; the America we are.

The rich heritage of the U.S. Postal Service is best portrayed through its people. Many come from generations of postal families — who grew up in postal homes and followed in their parents' footsteps as part of the larger postal family.

Frank and Anna Thomann of Hills, Iowa, started their family's tradition three-quarters of a century ago. And now, seven decades and four generations later, Thomans continue in the Postal Service. (Over the years, the family dropped the last 'n' in Thomann.)

Deborah Thoman Engaldo, a customer service supervisor at the Lakeside, California, Post Office, is one. On the cover of this 1994 Annual Report, she is joined by her husband Michael; father, Frank Thoman; and her children Tony and Melissa. On the following pages, Deborah's words trace her family's history over the years.

The Thoman Family, representative of hundreds of multi-generational postal families, is the product of a nationwide search through our all-employee magazine. Other families are portrayed throughout the Annual Report.

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To the Governors and Congress

For more than two centuries, the dedicated men and women of the United States Postal Service have pursued their historic mission to serve the communications needs of America's citizens and its businesses.

This annual report reflects that heritage through the eyes of real postal people from families who have been part of the larger postal family who served over many generations. From pen to typewriter to computer to electronic letters, the means of writing letters has changed. Yet, across the generations, the people who deliver the letters are the same dedicated individuals as their predecessors over two centuries.

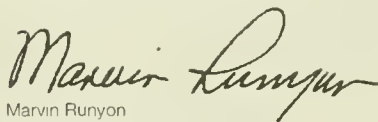
The mission of the Postal Service also remains unchanged. We are dedicated to "universal service at a uniform price" — the words that chartered this great organization 220 years ago. We shall never waver from this historic mission.

As we move forward into 1995, we look back on a successful 1994 — one where we began to make good on our promise to reinvent the Postal Service and keep it focused on meeting the needs of our customers.

We completed a fourth year without raising rates, the first time that has been accomplished in a quarter century. We beat a tough budget by \$430 million. Although we saw some serious service problems develop in some major cities, we dealt with them affirmatively.

According to our External First-Class Measurement System, overnight service performance was 81.9 percent for fiscal year 1994. And customer satisfaction remains high — 85 percent of the nation's households rated their overall satisfaction with the Postal Service as "excellent," "very good," or "good" at the end of the year.

There is much work to do in 1995 to keep the Postal Service moving forward, as we rededicate ourselves to continuing our evolution into a premier provider of 21st-century postal communications.



Marvin Runyon
Postmaster General
and Chief Executive Officer
Washington, DC
January 10, 1995

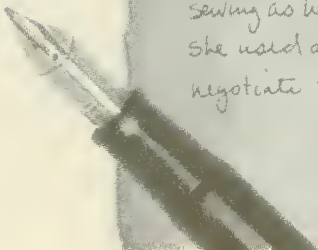


A



1st Generation

Our family's postal tradition began in 1912, when my great grandmother Anna C. Thomann started her 25-year career as a rural carrier relief at the Hills Iowa Post Office. And that was at the age of 40. In 1919, she got her own route, with her husband Frank serving as her relief carrier. Unlike most carriers at the time, she used a team of two horses for the mail wagon to negotiate the steep, unimproved roads in the area...



Congress named Benjamin Franklin to serve as our nation's first Postmaster General. From its beginnings, it was intended to bind the nation together — to provide every American and every business with the opportunity to communicate and to conduct business with each other.

In the more than two centuries that have followed, the United States and the Postal Service have grown and changed together. Today's postal system extends over a nationwide network of almost 40,000 offices, and its people deliver to 125 million addresses six days a week.

By the end of fiscal year 1994 (September 30), the Postal Service generated \$49.4 billion in operating revenue and had a work force of 728,944 career employees — among them the fourth generation of Anna Thomann's family.

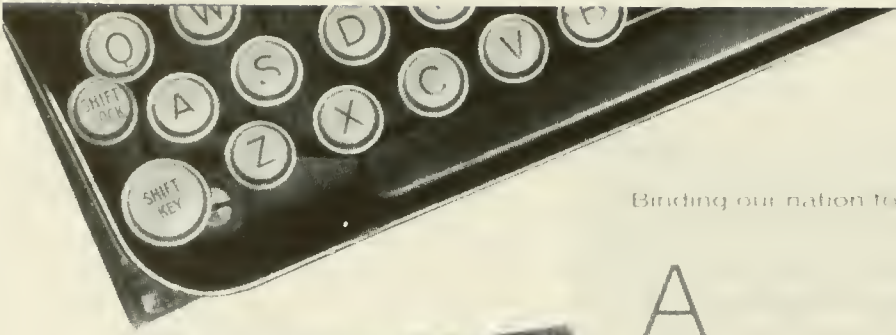
Deborah Thoman Engaldo, a customer service supervisor in Lakeside, California, and her brother, Bill Thoman, a mail handler in Cedar Rapids, Iowa.

And, just as in the days of Deborah's grandparents and father — when the competition came mainly from magazines and newspapers and the telephone and television — mail has remained a competitive medium even in the age of fax, computers and alternate delivery firms. The value of mail remains. The products and services provided by the modern-day Thomans and other postal workers like them are supported by one of America's most recognized, respected, and relevant brands — the United States Postal Service.



2nd Generation

My grandfather, Miles M. Thomann, continued the tradition with his own 23-year career working for the old Post Office Department. The son of Frank and Anna Thomann, he started as a postal clerk at the Town City Post Office in 1916 and later became a finance clerk. His truly was a postal family.



Binding our nation together

A



3rd Generation

This is my father, Frank Thoman, when he carried mail in Iowa City. He started as a substitute letter carrier and clerk in 1948. In those days, if there wasn't enough work in one department, the post office could put you to work in another. My father always preferred carrying, because he liked being outdoors and meeting people. He became a regular letter carrier in 1956 and spent the last 31 years of his 42-year career delivering mail to customers on his Manville Heights route before he retired in 1990.

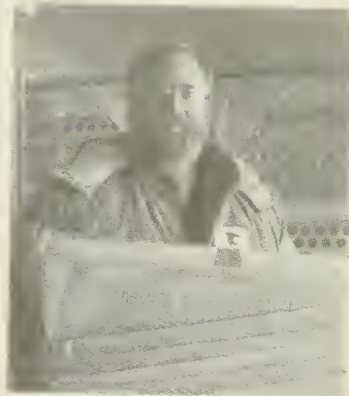
processing and delivering some 45 billion pieces of mail each year. And to reach every mailbox in every community, in every state, the department employed a work force of some 500,000 employees.

By 1971, when postal reorganization created the United States Postal Service, mail volume had almost doubled, and the work force had grown to 741,000 career employees. It was apparent that more than just ZIP codes and the mechanization of operations were needed to cope with increasing mail volume.

During the last half of his 42-year career, Thoman saw the volume of mail increase again by 100 percent but, more importantly, witnessed dramatic new changes in postal equipment that increased efficiency and reduced the number of mailpiece handlings.



By 1984, optical character readers installed in major mail processing centers each were processing more than 6,200 pieces of mail per work hour, compared to the 1,750 pieces per work hour processed by Multi-Position Letter Sorting Machines.



3rd Generation

My brother, Bob Thomas, began his postal career in 1988 as a distribution clerk in the San Diego Post Office before transferring to the San Diego Post Office in 1990. In 1998, I was selected as a Delivery Service Supervisor for the San Diego Division and, in 1999, became a Customer Service Supervisor for the Lakeside office. The greatest operational change I have seen take place in my 15 years with the Postal Service has been the recent delivery point sequencing of mail, as it's prepared for letter carriers. There has also been a much needed shift toward customer service, and I am able to make changes if something needs to be corrected.

My brother, Bob Thomas, got a one gear jump on me, beginning his postal career in 1979 as a mail handler in Cedar Rapids, Iowa. One great advantage I have in working nights is his ability to enjoy, and participate in, more of his children's early development and education. Many working parents don't have that opportunity.

Continuing the tradition

Today, a new generation of equipment is changing the way mail is processed and prepared for delivery. The resulting improvements in efficiency have helped the Postal Service meet the challenges of handling and delivering an annual mail volume that has grown from 106 billion pieces to more than 177 billion pieces since Deborah Thoman Engaldo joined the Postal Service in 1980.

With approximately 40 percent of its automated equipment in place, the Postal Service will continue to fine-tune its work force and organizational structure to meet the demands of processing record volumes of mail in future years.

To help achieve greater efficiency and lower operating costs, the Postal Service has invested about \$2.6 billion since 1987 for capital equipment to automate its mail processing and delivery point sequencing operations. Since 1991, approximately 4,000 optical character readers, delivery bar code sorters, and other pieces of equipment have been installed at postal facilities throughout the country.

Postal Service deployment of automation will continue over the next few years and — by the end of 1997 — approximately 12,000 pieces of automated sorting equipment will be in place.

Mail Volume





5th Generation

Tony and Melissa, my son and daughter, may very well carry on the family tradition...and help the Postal Service meet its goals in the 21st century. In the years ahead, my children will see — and be a part of — important new changes that will take place faster and be more far reaching than anything we have seen before. The next generation of technological improvements is just around the corner, and they will provide the speed, timeliness, and accuracy of service that no competitor can match. We are a wonderful company and, as long as we continue to do a good job and meet customer needs, I feel very confident about our future.

Confident about our future

The United States Postal Service and mail are big business. If it were a private company, the Postal Service would be the nation's 11th largest corporation, with total revenues exceeding \$49 billion in 1994.

Each of the Postal Service's seven product lines would qualify as a Fortune 200 company on its own. Correspondence and transactions is a \$24.5 billion business. Business advertising is a \$12.7 billion business. Expedited delivery is a \$2.9 billion business and standard package delivery is a \$2 billion business. International mail is a \$1.4 billion business. Publications delivery is a \$1.7 billion business and, finally, retail is a \$3 billion business.

The Postal Service and the mailing industry built these businesses together, taking advantage of the technology and the products that customers need today and will need in the future.

Operating Revenue



In fact, the next generation of improvements in our technology is just around the corner. These changes will let us automate virtually all the mail and will improve the speed and accuracy of our service. Well into the 21st century, our products will be recognized as the best value in America, and we will be the most effective and productive service in the federal government and the markets that we serve.

And, along the emerging information superhighway, the Postal Service has the equity and the experience in a generation of services that will be needed for electronic commerce, including privacy, security, and certification.

Because our future looks bright



Electronic commerce via interactive TV



Information readers and transmitters lift data from Business and Courtesy Reply cards

As the Postal Service continues as the leader in the delivery of hard copy communications, it also looks at new opportunities to use its technology to create new products and services.

To meet this challenge, the Postal Service is focusing on three strategies: improving the existing mail flow by creating new mail services; identifying and creating new services in the arena of electronic commerce; and positioning the Postal Service to provide the next generation of communications products.

This commitment to meet changing customer needs and expectations is demonstrated by a number of current initiatives that the Postal Service is exploring and testing

■ In the field of electronic commerce, the Postal Service is working with other federal agencies and businesses in the private sector to evaluate services such as certification, authentication, encryption, "electronic postmarks," and other value-added services. These services would be based on the Postal Service's established role as a trusted third party to maintain security and protect individual privacy.

■ Business and Courtesy Reply card scanning is a service which reads customer information from reply cards at the originating post office. The data is electronically transmitted to the business, enabling it to act on the information within a matter of hours.

■ The Postal Service is testing the ability to read utility meters from postal vehicles as the letter carriers navigate the streets on their routes. One day, the Postal Service may routinely perform this service for utilities and use this revenue to help hold down the cost of postage.

■ As part of Vice President Al Gore's call to "reinvent government," the Postal Service is leading an interagency effort to electronically provide government information and services to the public. Working with federal, state, and local entities, the Postal Service has developed an interactive "citizens kiosk" that provides a single point of contact for government service. The kiosks ensure fast, easy, and universal access for all people.



On-board processor and transceiver collect data from utility meters



Government information provided electronically through interactive kiosks

Governors of the United States Postal Service



The Board of Governors, in the operations center of the new high-tech Network Operations Management System at Postal Service Headquarters in Washington, DC, includes (seated front to back): Sam Winters and Tirso del Junco, M.D. Standing, front to rear: Robert Setrakian, LeGree S. Daniels, Einar V. Dyhrkopp, Norma Pace, Bert H. Mackie, and Susan E. Alvarado. David F. Harris, standing beside Governor Alvarado, is full-time Secretary for the Board of Governors.

The Postal Service Board of Governors is an 11-member board comparable to the board of directors of a publicly owned corporation.

Nine of the governors are appointed by the president with the advice and consent of the Senate. They, in turn, select a Postmaster General, and those 10 select a Deputy Postmaster General to also serve on the board.

The board directs and controls expenditures of the Postal Service, reviews its practices, joins in long-range planning, and sets policies on all postal matters.

The board meets monthly in Washington, DC, and other cities across the United States.

Sam Winters, *Chairman of the Board of Governors*, was appointed to serve on the board in November 1991 for a term expiring in December 1999. He is a member of the law firm of Clark, Thomas & Winters, and a member of the board of directors of the First Interstate Bank of Texas.

Tirso del Junco, M.D., *Vice Chairman of the Board of Governors*, was appointed to the board in July 1988 for a term that expired in December 1991 and was reappointed to another full term expiring in December 2000. He is chairman of the board's Audit Committee, a Los Angeles surgeon, and serves as a member of the board of regents of the University of California.

Susan E. Alvarado was appointed in July 1988 to serve on the board for a term expiring in December 1996. She is a partner of Alvarado & Gerken, a government relations consulting firm.

LeGree S. Daniels was appointed to the board in August 1990 for a term expiring in December 1998. She is a member of the Penn State University Board of Advisors, Harrisburg campus, and formerly served as the U.S. Department of Education's Assistant Secretary for Civil Rights from 1987 to 1989.

Einar V. Dyhrkopp was appointed to the board on November 24, 1993, for a term expiring in December 2001. He is president and founder of Tecumseh International Corporation, a coal-marketing firm; a farmer; and is active in local banks.

Bert H. Mackie was appointed in December 1988 to be a governor for a term expiring in December 1997. He served as Chairman of the Board of Governors from January 1993 to January 1994. He is currently president of the Security National Bank of Enid, Oklahoma, as well as a member of its board of directors.

Norma Pace was appointed to the board in May 1987 for a term expiring in December 1994. She served as Chairman of the Board of Governors from January 1991 to January 1993. She is Senior Economic Advisor and Director of The WEFA Group. As provided by law, she will continue to serve on the board for up to one year or until a successor is appointed by the president.

Robert Setrakian was appointed to the board in December 1985 for a term expiring in December 1993. As provided by law, he continued to serve on the board until December 8, 1994. He served as Chairman of the Board of Governors from January 1989 to January 1991. He is president and chairman of the William Saroyan Foundation, director of F.N. Financial Corporation, and director of First Nationwide Bank.

Also members of the Board of Governors:

Marvin Runyon was named 70th Postmaster General of the United States in May 1992 by the nine presidentially appointed members of the Board of Governors. Prior to his appointment, he served as chairman of the Tennessee Valley Authority.

Michael S. Coughlin, a career postal employee, was appointed Deputy Postmaster General by the board in January 1987, after holding a series of top-level postal management positions. As a ranking official in the U.S. Postal Service, he is the chief of staff for the Postmaster General.

Changes during the year:

Crocker Nevin, whose second term as a governor expired in December 1992, continued to serve on the board beyond the expiration of his term, until November 23, 1993, as provided by law.

Officers of the United States Postal Service



At the center of the Union Station Postal Store in Washington, DC, are Deputy Postmaster General Michael S. Coughlin (left) and William J. Henderson, Chief Operating Officer and Executive Vice President

David C. Bakke
Vice President, Area Operations
Southeast Area

William J. Brown
Vice President, Area Operations
Midwest Area

James A. Cohen
Judicial Officer

Michael S. Coughlin
Deputy Postmaster General

William J. Dowling
Vice President
Engineering

Mary S. Elcano
Senior Vice President and
General Counsel

Nancy L. George
Vice President, Area Operations
Northeast Area

William J. Good
Vice President, Area Operations
Great Lakes Area

Robert F. Harris *
Vice President
Diversity Development

William J. Henderson
Chief Operating Officer and
Executive Vice President

Suzanne J. Henry **
Vice President
Employee Relations

Gene R. Howard
Vice President, Area Operations
Pacific Area

Kenneth J. Hunter
Chief Postal Inspector

Allen R. Kane
Vice President
Operations Support

John F. Kelly
Vice President, Area Operations
New York Metro Area

Charles K. Kernan
Vice President, Area Operations
Southwest Area

Norman E. Lorentz
Vice President
Quality

Joseph J. Mahon, Jr.
Vice President
Labor Relations

Henry A. Pankey
Vice President, Area Operations
Mid-Atlantic Area

M. Richard Porras
Vice President
Controller

Darrah C. Porter
Vice President
Purchasing

Diane M. Regan
Vice President
Operations Redesign

Robert A. F. Reisner
Vice President
Technology Applications

Michael J. Riley
Chief Financial Officer and
Senior Vice President

Ann McK. Robinson
Vice President and
Consumer Advocate

Marvin Runyon
Postmaster General and
Chief Executive Officer

Loren E. Smith
Chief Marketing Officer and
Senior Vice President

Gail G. Sonnenberg
Vice President
Marketing Systems

Larry M. Speakes
Vice President
Corporate Relations

Jon Steele
Vice President, Area Operations
Allegheny Area

Rudolph K. Umscheid
Vice President
Facilities

Craig G. Wade
Vice President, Area Operations
Western Area

James C. Walton
Vice President
Workforce Planning and
Service Management

John R. Wargo
Vice President
Sales

Richard D. Weirich
Vice President
Information Systems

Open
Vice President
Product Management

Open
Vice President
Legislative Affairs

* Served as Vice President, Legislative Affairs, until December 1, 1994

** Named Manager, William F. Bolger Management Academy, effective December 1, 1994

Financial Statements

The final numbers for fiscal year 1994 show we beat one of the toughest, most aggressive budgets in our history...and we beat it by a wide margin.

Although we ended the year with a net loss of \$914 million, that is \$430 million less than our expected loss of \$1.344 billion. Our results for the year were significantly improved by management's aggressive actions in lowering workers' compensation expenses by reducing the number of employees on the workers' compensation rolls. The \$327 million fiscal year 1994 expense decreased from fiscal year 1993 by more than \$600 million.

Certainly, there is no such thing as a good loss. But every postal employee should take great pride in our ability to pull together to meet and surpass a goal that many thought was unattainable.

Our overall volume of 177 billion pieces grew 3.4 percent, or 5.8 billion pieces, over last year. This was driven by a 5.5 percent growth in third-class mail and a 2.4 percent growth rate in First-Class Mail volume.



*Michael J. Riley, Chief Financial Officer
and Senior Vice President*

Operating revenue was \$49.4 billion, an increase of \$1.8 billion over 1993. This represents a solid 3.8 percent growth over last year, despite a \$329 million shortfall in funding provided by Congress for processing and delivery of nonprofit mail.

Operating expenses were \$48.5 billion and exceeded the budget by \$71 million, or 0.1 percent. Compared to last year, expenses were up 4.6 percent.

In summary, our financial performance for the year — along with the continuing growth in mail volume and operating revenue — forms a strong foundation for achieving our financial and service goals for fiscal year 1995.

Financial and Operating Highlights

	Year Ended Sept. 30, 1994	Year Ended Sept. 30, 1993	Year Ended Sept. 30, 1992	Year Ended Sept. 30, 1991	Year Ended Sept. 30, 1990
Pieces of mail (millions)	177,062	171,220	166,443	165,851	166,301
Percent change	3.4	2.9	0.4	-0.3	2.9
<i>(dollars in millions)</i>					
Revenue from operations	\$49,252	\$47,418	\$46,151	\$43,323	\$39,201
Percent change	3.9	2.7	6.5	10.5	3.2
Public service appropriation	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Revenue forgone appropriation*	\$ 131	\$ 164	\$ 545	\$ 562	\$ 453
Percent change	-20.1	-69.9	-3.0	24.1	3.9
Total operating expenses****	\$48,455	\$46,321	\$45,653	\$43,291	\$40,490
Percent change****	4.6	1.5	5.5	6.9	5.5
Interest expense on unfunded retirement liabilities****	(\$ 1,336)	(\$ 1,346)	(\$ 1,269)	—	—
Other interest expense, net of interest income	(\$ 506)	(\$ 286)	(\$ 310)	(\$ 253)	(\$ 38)
(Loss) income, before retroactive assessments and extraordinary item	(\$ 914)	(\$ 371)	(\$ 536)	\$ 341	(\$ 874)
Retroactive assessment					
OBRA 1990	—	—	—	(\$ 1,810)	—
Retroactive interest assessment					
OBRA 1993	—	(\$ 857)	—	—	—
Extraordinary item — debt refinancing premium	—	(\$ 537)	—	—	—
Net loss	<u>(\$ 914)</u>	<u>(\$ 1,765)</u>	<u>(\$ 536)</u>	<u>(\$ 1,469)</u>	<u>(\$ 874)</u>
Fixed assets (net of depreciation)**	\$16,220	\$15,535	\$14,696	\$13,109	\$11,523
Percent change	4.4	5.7	12.1	13.8	11.5
Net capital deficiency	(\$ 5,962)	(\$ 5,048)	(\$ 3,283)	(\$ 2,747)	(\$ 1,278)
<i>(in units indicated)</i>					
U.S. resident population July 1					
estimate (in millions)***	260.7	257.9	253.6	250.9	248.2
Percent change	1.1	1.7	1.1	1.1	1.0
Pieces of mail per capita	679	664	656	661	670
Percent change	2.3	1.2	-0.8	-1.3	1.8
Operating revenue per capita	\$ 188.95	\$ 183.86	\$ 181.98	\$ 172.67	\$ 157.94
Percent change	2.8	1.0	5.4	9.3	2.2
Operating expense per piece of mail****	27.37¢	27.05¢	27.43¢	26.10¢	24.35¢
Percent change****	1.2	-1.4	5.1	7.2	2.6
Operating revenue per piece of mail	27.82¢	27.69¢	27.73¢	26.12¢	23.57¢
Percent change	0.4	-0.1	6.2	10.8	0.3
Net loss per piece of mail	(0.52¢)	(1.03¢)	(0.32¢)	(0.89¢)	(0.53¢)
Career employees	728,944	691,723	725,290	748,961	760,668
Percent change	5.4	-4.6	-3.2	-1.5	-2.2

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act, as amended by the Revenue Forgone Reform Act of 1993.

** Fiscal Year 1990 - 1991 data recast to include construction in progress

*** 1990 data recast to reflect 1990 census information.

**** Beginning in 1992, interest on unfunded liabilities is presented separately. Such amounts for the prior years are included in the total operating expenses. Prior years are not comparable.

Financial Statements

Balance Sheets

	September 30,	
	1994	1993
	(dollars in millions)	
Assets		
Current assets		
Cash and cash equivalents	\$ 1,418.8	\$ 1,473.6
U.S. Government securities, at cost which approximates current value	1.7	1,748.8
Receivables		
Foreign countries	635.0	561.1
U.S. Government	96.6	108.9
Consignment	31.1	103.3
Other	204.4	150.4
	967.1	923.7
Less allowances	86.0	58.3
Total receivables, net	881.1	865.4
Supplies, advances, and prepayments	381.4	390.3
Total current assets	2,683.0	4,478.1
Other assets, principally revenue forgone appropriations receivable — Note 5	266.0	202.5
Property and equipment, at cost		
Buildings	11,279.5	9,970.5
Equipment	8,217.3	7,219.5
Land	1,900.5	1,715.2
	21,397.3	18,905.2
Less allowances for depreciation	6,865.9	6,106.9
	14,531.4	12,798.3
Construction in progress	1,425.6	2,503.5
Leasehold improvements, net of amortization	262.9	232.7
Total property and equipment, net	16,219.9	15,534.5
Deferred retirement costs — Note 4	27,246.7	27,066.0
	<u>\$ 46,415.6</u>	<u>\$ 47,281.1</u>

See accompanying notes to financial statements.

The Wymer-Lonsinger family

Nearly 100 years of postal tradition for the Wymer family began in 1844 when Fred J. Wymer (right), great-grandfather of Tim Lonsinger (left), began his 44-year career as a letter carrier out of the Oak Park, Illinois Post Office.

When Fred Wymer retired in 1942, his son, John P. Wymer (below), already had six years of service as a carrier at



the same Oak Park office. In 1944, John Wymer and his wife moved to Burbank, CA, where he later served as president of Branch 1993 of the National Association of Letter Carriers.

One of the things his grandfather was most proud of was the campaign he shared in 1964 to make the residents of Burbank more "flag conscious," says Tim Lonsinger. "He and his fellow carriers began a 'Display the Flag' campaign in May of that year and continued it up to the Fourth of July. They sold more than 5,000 flags."

Tim's mother, Patricia (Wymer) Lonsinger, continued the tradition in Burbank, CA.



in the early 1970s, and then worked on the old single-position letter sorting machines. She is now the general clerk for more than 500 Tour Employees at the Van Nuys, CA Post Office.

"As a member of the fourth postal generation in my family, I am living the 'American dream'," says Tim, who has been a letter carrier out of the North Hollywood, CA Post Office for almost eight years. "I have a good job, a wife, two daughters, and a home."



Financial Statements Balance Sheets

	September 30,	
	1994	1993
	(dollars in millions)	
Liabilities and Net Capital Deficiency		
Current liabilities		
Compensation and benefits	\$ 4,433.5	\$ 3,933.7
Estimated prepaid postage	1,567.4	1,529.4
Payables and accrued expenses		
Foreign countries	832.9	714.4
U.S. Government	329.7	329.8
Other	1,119.7	697.1
Total payables and accrued expenses	2,282.3	1,741.3
Prepaid permit mail and box rentals	1,289.6	1,175.1
Outstanding postal money orders	831.5	698.2
Current portion of long-term debt	1,260.9	1,062.0
Total current liabilities	11,665.2	10,139.7
Long-term debt, less current portion		
(current value of \$7,825.9 million in 1994 and \$9,534.8 million in 1993) — Note 6	7,726.7	8,686.3
Other liabilities		
Amounts payable for retirement benefits —		
Note 4	26,013.6	25,915.3
Workers' compensation costs — Note 1	4,326.2	4,500.0
Retroactive assessments payable to		
the U.S. Government — Note 2	899.9	1,528.4
Employees' accumulated leave	1,513.6	1,398.1
Other	231.9	161.0
	32,985.2	33,502.8
Commitments and contingencies —		
Notes 7 and 8		
Net capital deficiency		
Capital contributions of the		
U.S. Government	3,033.9	3,034.1
Deficit since reorganization	(8,995.4)	(8,081.8)
Total net capital deficiency	(5,961.5)	(5,047.7)
	<u>\$ 46,415.6</u>	<u>\$ 47,281.1</u>

See accompanying notes to financial statements.

Financial Statements
Statements of Operations and Changes
in Net Capital Deficiency

	Years ended September 30,	
	1994	1993
	(dollars in millions)	
Operating revenue — Note 5	\$ 49,383.4	\$ 47,582.0
Operating expenses		
Compensation and benefits — Notes 1, 3 and 4	39,608.8	38,447.7
Other	8,846.4	7,873.9
	<u>48,455.2</u>	<u>46,321.6</u>
Income from operations	928.2	1,260.4
Interest and investment income	193.4	404.2
Interest expense on unfunded retirement liabilities — Note 4	(1,336.4)	(1,345.9)
Interest expense on borrowings	(601.5)	(620.2)
Imputed interest on OBRA 1990 and OBRA 1993 retroactive assessments for employee benefits — Note 2	(97.3)	(69.9)
Loss before OBRA 1993 retroactive interest assessment and extraordinary item	(913.6)	(371.4)
OBRA 1993 retroactive interest assessment — Note 2	—	(857.0)
Loss before extraordinary item	(913.6)	(1,228.4)
Extraordinary item — debt refinancing premium — Note 6	—	(536.5)
Net loss	(913.6)	(1,764.9)
Net capital deficiency — beginning of year	(5,047.7)	(3,283.1)
Capital equipment transfers (to) from the U.S. Government	(0.2)	0.3
Net capital deficiency — end of year	<u>(\$ 5,961.5)</u>	<u>(\$ 5,047.7)</u>

See accompanying notes to financial statements.

The Villa family

The Villa family has been in the U.S. Postal Service since the late 19th century. Ancestors of the family, including the late John Villa, worked in the U.S. Postal Service for over 50 years. The family has a long history of service to the U.S. Postal Service, and the family is proud to continue this tradition.

Today, the Villa family continues to serve in the U.S. Postal Service. The family is proud to continue this tradition. The family is proud to continue this tradition. The family is proud to continue this tradition.

Grandfather Ralph Villa kept the tradition alive, becoming a mail handler in Phoenix. He retired in Sacramento, CA, in 1975, well after his own son — Ralph Yanez Villa —





had established his postal career as a Postal worker in 1949. Pictured below are the three living generations of the Villafra family (standing, left to right: Ralph Villafra, Richard, and Rojane Villafra). Seated, left to right, are their father, Ralph Villafra, and grandfather, Ralph Villafra.



Financial Statements

Statements of Cash Flows

Years ended September 30,
1994 1993
(dollars in millions)

Cash flows from operating activities:		
Net loss	(\$ 913.6)	(\$ 1,764.9)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Extraordinary item — debt refinancing premium	—	536.5
Depreciation and amortization	991.9	888.7
Loss (gain) on sales of investments, net	0.1	(166.0)
Loss on disposals of property and equipment, net	23.6	61.1
Increase in other assets, principally revenue forgone appropriations receivable	(63.5)	(41.7)
Increase in retirement costs, net of retirement benefits payable	—	(0.5)
Decrease in accrued restructuring costs	(92.4)	(891.4)
(Decrease) increase in workers' compensation costs	(173.8)	456.7
(Decrease) increase in retroactive assessments payable to the U.S. Government	(374.7)	548.9
Increase in employees' accumulated leave	115.5	72.8
Increase in other liabilities	70.9	82.0
Changes in current assets and liabilities:		
Increase in receivables, net	(15.7)	(80.5)
Decrease in supplies, advances and prepayments	8.9	3.0
Increase in compensation and benefits	163.6	408.0
Increase in estimated prepaid postage	38.0	28.4
Increase in payables and accrued expenses	633.4	370.8
Increase in prepaid permit mail and box rentals	114.5	129.7
Increase in outstanding postal money orders	133.3	65.5
Net cash provided by operating activities	660.0	707.1
Cash flows from investing activities:		
Purchase of U.S. Government securities	(10,450.0)	(47,069.5)
Proceeds from sale of U.S. Government securities	12,217.5	50,032.5
Purchase of property and equipment	(1,726.5)	(1,885.0)
Proceeds from sale of property and equipment	4.9	65.7
Net cash provided by investing activities	45.9	1,143.7
Cash flows from financing activities:		
Issuance of long-term debt	300.0	5,000.0
Payments on long-term debt	(1,060.7)	(5,712.3)
Net cash used in financing activities	(760.7)	(712.3)
Net (decrease) increase in cash and cash equivalents	(54.8)	1,138.5
Cash and cash equivalents at beginning of year	1,473.6	335.1
Cash and cash equivalents at end of year	<u>\$ 1,418.8</u>	<u>\$ 1,473.6</u>

See accompanying notes to financial statements.

Notes to Financial Statements
September 30, 1994 and 1993

1. Postal Reorganization and Accounting Policies

Postal Reorganization

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

Cash Equivalents

Cash equivalents include securities with maturities at date of purchase of 90 days or less.

Property and Equipment

Property and equipment are recorded at cost, including interest on funds borrowed to finance the construction of major capital additions. Such interest amounted to \$77.7 million in fiscal year 1994 and \$115.3 million in fiscal year 1993. Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the lesser of the lease period or their useful lives.

Estimated Prepaid Postage

Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the year for which services will be performed in the following year.

Compensation and Benefits

Amounts payable for compensation and benefits consist of current liabilities for costs related to current employees and postal annuitants. Such liabilities include those arising from current salaries and benefits earned but not yet paid, currently payable workers' compensation costs, unemployment costs, annuitants' health benefits payable and current portions of retirement liabilities. As a part of management's continuing evaluation of estimates required in the preparation of its financial statements, additional liabilities of approximately \$150 million were recorded in fiscal year 1993 to recognize increases in the estimated cost of personnel-related liabilities incurred prior to 1993.

Retirement Benefits

Amounts payable for retirement benefits reflect the net present value of the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the CSRS

Fund) arising from increases in basic pay granted by postal management to its employees and cost-of-living adjustments (COLAs) to postal annuitants based on postal service. Also included in this total for fiscal year 1993 is the net present value of an unfunded liability arising from the transfer of Civil Service Retirement System (CSRS) employees into the Federal Employees Retirement System (FERS). The liability arising from this transfer was deemed liquidated by OPM as of September 30, 1994 due to a reassessment of funding requirements. These liabilities are payable in equal amounts over a 30-year period, with the exception of COLAs, which are payable over 15 years. Amounts due and payable in future years are capitalized as deferred retirement costs and are subsequently amortized over periods of 30 and 15 years. The Postal Service's participation in the retirement plans is accounted for as participation in multi-employer plan arrangements. Accordingly, retiree benefits costs are expensed as incurred.

Post-Retirement Health Benefits

Retiree health benefits costs represent the Postal Service's obligation to pay a portion of the health insurance premiums of retirees (and their survivors) participating in the Federal Employees Health Benefits Program (FEHBP). The Postal Service's participation in the FEHBP is accounted for as participation in a multi-employer plan arrangement. Accordingly, retiree health benefits costs are expensed as incurred.

Workers' Compensation Costs

Workers' compensation costs are self-insured by the Postal Service and administered by the Department of Labor (DOL). Such costs, which include both medical and wage continuation costs, are recorded as an operating expense in the year of injury at the present value of the total estimated costs of claims. Estimates of the total costs of claims are based upon severity of injury, age, assumed mortality, experience trends and other factors. In fiscal year 1993, management adopted changes in the net discount rates used in determining the present value of estimated future workers' compensation payments. The net discount rate for compensation claims was increased to 3.0 percent from 2.7 percent; the net discount rate for medical claims was decreased to 0.1 percent from 1.1 percent. The net effect of the adoption of these rates was accounted for as a change in accounting estimate, and accordingly resulted in a net decrease of \$23.6 million in the fiscal year 1993 compensation and benefits expense. In management's opinion, these net discount rates better reflect the excess of future rates of return on postal investments over expected future inflation rates for each type of claim.

As a result of management actions taken to reduce the number of claimants on workers' compensation rolls, and improvements made in the Department of Labor's medical claims review systems, workers' compensation expense significantly decreased from \$945 million in 1993 to \$327 million in 1994. The 1994 expense of \$327 million was \$868 million better than plan due to an actual reduction in the long-term workers' compensation liability versus a budgeted increase in the liability. The total workers' compensation liability decreased by \$174 million from \$5,034 million at September 30, 1993, to \$4,860 million at September 30, 1994, due primarily to the successful implementation of workers' compensation claims management programs.

Research and Development Costs

Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to \$50.4 million in fiscal year 1994 and \$57.5 million in fiscal year 1993.

Current Values of Financial Instruments

Current values of investments in non-marketable U.S. Government securities are based on the current values of equivalent marketable U.S. Government securities. Current values of Postal Service debt obligations are based on the estimated cost to retire the debt utilizing current yields on equivalent U.S. Treasury obligations.

Supplies, Advances and Prepayments

Supplies, advances and prepayments are comprised primarily of supplies inventory, motor vehicles inventory, repairable parts inventory for mail processing equipment, and annual leave advances. Inventories are stated at the lower of average cost or market and amounted to \$176 million and \$169 million in 1994 and 1993, respectively.

Reclassifications

Certain reclassifications have been made to previously reported amounts in order to conform to the current year presentation.

2. Retroactive Assessments for Employee Benefits

Omnibus Budget Reconciliation Act of 1990

The Omnibus Budget Reconciliation Act (OBRA) of 1990, enacted in October 1990, extended the Postal Service's obligation to pay the employer's portion of annuitant COLAs (Note 4) and health benefits (Note 3). The OBRA of 1990 also assessed the Postal Service for retroactive amounts to be paid in five annual installments, beginning in fiscal year 1991, totaling \$2.14 billion. The assessment represents the employer's portion of annuitant COLAs and health benefits, previously paid by the U.S. Government, that the Postal Service would have paid had the provisions of the OBRA of 1990 been in effect from July 1, 1971, through September 30, 1986.

The retroactive assessments payable under the OBRA 1990, on a present value basis, are as follows (dollars in millions):

Fiscal Year	Health Benefits	COLAs	Total
1991	\$ 56.0	\$216.0	\$ 272.0
1992	47.0	266.0	313.0
1993	62.0	316.0	378.0
1994	56.0	416.0	472.0
1995	234.0	471.0	705.0
			<u>2,140.0</u>
Less amount representing imputed interest at 5 percent			<u>329.9</u>
Retroactive assessment for employee benefits expensed in 1991			1,810.1
Less installments paid through 1994			<u>1,138.7</u>
1995 installment classified as a current liability in compensation and benefits			<u>\$ 671.4</u>

Omnibus Budget Reconciliation Act of 1993

The OBRA of 1993, enacted in August 1993, obligated the Postal Service to pay interest on the retroactive assessments due under the OBRA of 1990. The interest assessment will be paid in three annual installments, beginning in fiscal year 1996, totaling \$1.041 billion. The assessment represents interest, at 5 percent, on the employers portion of annuitant COLAs and health benefits, previously paid by the U.S. Government, that the Postal Service would have paid had the provisions of the OBRA of 1990 been in effect from July 1, 1971, through September 30, 1986.

The amounts payable under the OBRA 1993, on a present value basis, are as follows (dollars in millions):

Fiscal Year	Health Benefits	COLAs	Total
1996	\$116.0	\$231.0	\$ 347.0
1997	116.0	231.0	347.0
1998	116.0	231.0	347.0
			<u>1,041.0</u>
Less amount representing imputed interest at 5 percent			<u>184.0</u>
Retroactive interest assessment expensed in 1993			857.0
Add amount of imputed interest expensed in 1994			<u>42.9</u>
Retroactive interest assessment classified as a noncurrent liability			<u>\$ 899.9</u>

3. Post-Retirement Health Benefit Programs

Career employees of the Postal Service are eligible to participate in the FEHBP, which is administered by the Office of Personnel Management (OPM), during their employment and also after retirement. Under the FEHBP, the Postal Service pays a portion of the health insurance premiums of participating employees, retirees and their survivors.

The OBRA of 1990 requires the Postal Service to pay the employer's share of health insurance premiums incurred through participation in the FEHBP for all employees retiring on or after July 1, 1971, and their survivors, with the exclusion of costs attributable to Federal civilian service prior to that date. Such costs amounted to \$519 million in fiscal year 1994 and \$510 million in fiscal year 1993 and are included in compensation and benefits expense.

As discussed in Note 2, the OBRA of 1990 also required the Postal Service to reimburse the U.S. Government for annuitants' health benefits costs paid prior to the enactment of the law.

4. Retirement Programs

Description of Plans

The Postal Reorganization Act provided that officers and career employees of the Postal Service were to be covered by the CSRS, which provides a basic annuity and Medicare coverage. Substantially all employees hired prior to January 1, 1984, are covered by the CSRS. The Postal Service and each participating employee contribute an amount equal to 7 percent of the employee's basic pay to the Civil Service Retirement and Disability Fund (CSRS Fund) and also make Medicare contributions at the statutorily prescribed rate. The Postal Service makes no matching contributions to the Thrift Savings Plan for CSRS employees.

Employees hired between January 1, 1984, and January 1, 1987, were covered by the provisions of the Dual CSRS/Social Security System until January 1, 1987. Certain employees with prior government service continue to be covered by such provisions. The Postal Service contributes an amount equal to 7 percent of each employee's basic pay to the CSRS Fund. The employee contribution rate is 0.8 percent of basic pay. Both the Postal Service and the employee make contributions for Social Security and Medicare at the statutorily prescribed rates. The Postal Service makes no matching contributions to the Thrift Savings Plan for Dual CSRS/Social Security System employees.

Effective January 1, 1987, employees hired since January 1, 1984, except as noted above, are subject to the provisions of the Federal Employees Retirement System (FERS)

Act of 1986. In addition, employees hired prior to January 1, 1984, were able to elect participation in FERS during certain periods in fiscal years 1987 and 1988. FERS is a three-tier retirement system consisting of Social Security, a basic annuity plan and a thrift savings plan.

The Postal Service made contributions to the FERS basic annuity plan in an amount equal to 12.9 percent of each employee's basic pay in fiscal years 1994 and 1993. The employee contribution rate was 0.8 percent of basic pay in both years. Both the Postal Service and each employee contribute to Social Security and Medicare at the statutorily prescribed rates. In addition, the Postal Service is required to contribute a minimum of 1 percent per annum of the basic pay of FERS employees to the Thrift Savings Plan. Contributions by FERS employees to the Thrift Savings Plan are voluntary and are fully matched by the Postal Service up to 3 percent of basic pay and at a 50 percent rate between 3 percent and 5 percent of basic pay.

The number of employees enrolled in each of the retirement plans at the end of fiscal years 1994 and 1993 are as follows:

	1994	1993
CSRS	350,811	358,254
Dual CSRS/Social Security	14,658	14,267
FERS	362,339	317,915

Deferred Retirement Costs

Deferred retirement costs consist of the following unfunded liabilities (dollars in millions):

	1994	1993
CSRS basic pay increases	\$ 22,884.9	\$ 22,809.8
CSRS annuitants' COLAs	4,361.8	3,917.3
FERS	—	338.9
	<u>\$ 27,246.7</u>	<u>\$ 27,066.0</u>



Unfunded Liability – CSRS

Under the CSRS, the Postal Service is liable for that portion of any estimated increase in the unfunded liability of the CSRS Fund attributable to Postal Service employee-management agreements that authorize increases in employees' basic pay on which benefits payable from the CSRS Fund are computed. The estimated increase in the unfunded liability as determined by OPM is paid by the Postal Service in 30 equal annual installments with interest computed at 5 percent per annum. The first payment thereof is due at the end of the fiscal year in which an increase in the basic pay becomes effective.

The increases in the unfunded liability for retirement benefits pursuant to employee-management agreements under the CSRS in fiscal years 1994 and 1993 were \$930.6 million and \$731.5 million, respectively.

Unfunded Liability – Annuitants' COLAs

The OBRA of 1990 made the Postal Service liable, on a prospective basis, for the cost of COLAs granted to postal annuitants (and their survivors) retiring on or after July 1, 1971, with the exclusion of costs attributable to Federal civilian service prior to that date. The annual liability created by this law is determined by OPM and funded in equal annual installments over 15 years, with interest at 5 percent per annum. The increase in the unfunded liability for annuitants' COLAs was \$868.7 million in fiscal year 1994 and \$729.7 million in fiscal year 1993.

Unfunded Liability – FERS

The unfunded liability of the FERS basic annuity plan is related to costs associated with employees who transferred from the CSRS. This liability was determined by OPM, and was funded by the Postal Service through supplemental contributions over a 30-year period with interest computed at 7 percent per annum. In fiscal year 1989, OPM determined the initial supplemental liability under FERS attributable to Postal Service employees at September 30, 1988, to be \$400.0 million, with an annual payment of \$32.2 million due on September 30 of each year. During 1994, OPM determined that net assets available for benefits attributable to the Postal Service exceeded the accrued liability attributable to postal employees. Accordingly, OPM determined that no payment was due on September 30, 1994, and that the liability is considered to be fully amortized as of that date.

Future Minimum Payments

The estimated future minimum payments required to fund amounts payable for CSRS retirement benefits on September 30, 1994 are as follows (dollars in millions):

Fiscal Year	Amount
1995	\$ 2,595.4
1996	2,569.3
1997	2,541.2
1998	2,510.7
1999	2,505.0
Thereafter	29,733.9
	42,455.5
Less the portion classified as a current liability	1,233.1
Less amount representing interest	15,208.8
	<u>\$26,013.6</u>

Expense Components

Components of aggregate retirement expenses included in compensation and benefits for fiscal years 1994 and 1993 are shown below (dollars in millions).

	1994	1993
CSRS — regular	\$ 830.4	\$ 828.1
FERS — regular	1,230.0	1,093.0
FERS — Thrift Savings Plan	339.8	303.5
Dual CSRS/Social Security	33.5	31.1
Social Security	949.7	853.9
Amortization of unfunded liabilities:		
CSRS	855.5	794.6
Annuitant COLAs	424.2	372.7
FERS	—	8.0
	<u>\$ 4,663.1</u>	<u>\$ 4,284.9</u>

5. Revenue Forgone

Operating revenue includes reimbursements and accruals for revenue forgone. Revenue forgone results from charging lower rates for those mail categories which Congress has determined should be subsidized through tax dollars. Revenue forgone appropriations included in operating revenue in fiscal years 1994 and 1993 amounted to \$131 million and \$164 million, respectively.

On October 28, 1993, the Revenue Forgone Reform Act (Act) was enacted. The Act authorizes Congress to appropriate \$29 million annually through 2035, which will reimburse the Postal Service for earned but unpaid revenue forgone appropriations for 1991, 1992 and 1993, as well as for the cost of phasing out certain aspects of the revenue forgone program in fiscal years 1994 through 1998. In addition, should Congress fail to appropriate an amount authorized, the Act authorizes the Postal Service to adjust rates on the various classes of mail, so that the resulting increase in revenues will equal the amount Congress failed to appropriate.

The transitional appropriations authorized under the Act total \$1.218 billion. The present value of these future appropriations, calculated at 7 percent, is approximately \$390 million. Management has determined that the present value of the portion of the future appropriations related to unpaid amounts in fiscal years 1991 through 1994 is approximately \$265.3 million, including \$69.0 million recognized in income in 1994. This amount is recorded as a receivable at September 30, 1994. The receivable recorded at September 30, 1993, related to unpaid amounts at that date was \$198 million.

6. Long-Term Debt and Interest Costs

The Postal Reorganization Act, as amended by Public Law 101-227, authorizes the Postal Service to issue and sell obligations not to exceed \$15 billion outstanding at any one time. Net annual increases in outstanding obligations are limited to \$2 billion for the purpose of capital improvements and \$1 billion for operating expenses.

In fiscal year 1993, the Postal Service retired, prior to maturity, \$4,463.5 million of notes payable to the FFB. These notes had a weighted average interest rate of 8.76 percent. The Postal Service incurred a debt refinancing premium of \$536.5 million, which was recognized as an extraordinary item in fiscal year 1993. The funds for the retirement of the debt were obtained through the issuance of \$5.0 billion of new debt.

Annual maturities of outstanding debt for each of the next five years are (dollars in millions)

Fiscal Year	Amount
1995	\$ 1,260.9
1996	1,863.2
1997	660.1
1998	2,182.6
1999	85.2
Thereafter	2,935.6

Cash paid for interest was \$684.6 million in 1994 and \$750.4 million in 1993.

Long-term debt consists of the following (dollars in millions):

Interest Rate (%)	Terms	September 30,	
		1994	1993
Notes payable to the Federal Financing Bank (FFB)			
8.075	Payable \$32 million each year to May 31, 2000	\$ 192.0	\$ 224.0
7.800	Payable \$15 million each year to May 31, 2001	105.0	120.0
7.591	Payable \$50 million each year to June 1, 1997, and \$22.5 million due on June 1, 1998 (prepaid \$677.5 million in fiscal year 1993, original maturity was May 31, 2011)	172.5	222.5
8.474	Payable \$30 million each year to June 1, 1998 (prepaid \$420 million in fiscal year 1993, original maturity was May 31, 2012)	120.0	150.0
8.908	Payable \$35.4 million each year to June 1, 1998 (prepaid \$495.6 million in fiscal year 1993, original maturity was May 31, 2012)	141.6	177.0
9.074	Payable \$60 million each year to June 1, 1998 (prepaid \$840 million in fiscal year 1993, original maturity was May 31, 2012)	240.0	300.0
9.081	Payable \$36 million each year to May 31, 1996, \$12 million due June 2, 1997	84.0	120.0
8.768*	Payable \$24 million on June 2, 1997, payments of \$36 million each year on June 1, 1998-1999, and payments of \$36 million each year thereafter through May 31, 2001	168.0	168.0
8.488	Payable on October 2, 1995	800.0	800.0
7.786	Payable on September 30, 1998	450.0	450.0
6.618*	Payable \$800 million on October 2, 1995, and \$400 million on September 30, 1997	1,200.0	2,000.0
4.676	Payable on October 31, 1994	1,000.0	1,000.0
6.307	Payable on October 31, 1997; callable November 30, 1995	1,500.0	1,500.0
7.367	Payable on August 15, 2002; callable November 30, 1997	1,500.0	1,500.0
7.615	Payable on November 30, 2007, callable November 30, 1997	1,000.0	1,000.0
Variable**	Payable on November 15, 2024	300.0	—
Mortgage Notes Payable:			
4.83 to 9.75	Maturing from fiscal years 1995 through 2004, secured by land, buildings and equipment with a carrying amount of \$80.2 million (aggregate annual installments approximate \$2.5 million)	14.5	16.8
		8,987.6	9,748.3
		1,260.9	1,062.0
Less current portion		<u>\$ 7,726.7</u>	<u>\$ 8,686.3</u>

* Weighted average interest rate
** Variable rate of 4.637 percent as of September 30, 1994

7. Commitments

At September 30, 1994, the estimated cost to complete approved Postal Service capital projects in progress was approximately \$1.48 billion.

Total rental expense for the years ended September 30, 1994 and 1993 is summarized as follows (dollars in millions):

	1994	1993
Noncancellable real estate leases including related taxes	\$ 555.0	\$ 537.5
Facilities leased from General Services Administration subject to 120-day notice of cancellation	38.0	39.4
Equipment and other short-term rentals	148.2	86.5
	<u>\$ 741.2</u>	<u>\$ 663.4</u>

At September 30, 1994, the future minimum rentals for all noncancellable leases are as follows (dollars in millions):

Year	Total
1995	\$ 440.1
1996	360.1
1997	283.0
1998	217.5
1999	151.8
Thereafter	514.5
	<u>\$1,967.0</u>

Most of these leases contain renewal options for periods ranging from 3 to 20 years. Certain noncancellable real estate leases have options to purchase the facilities at prices specified in the leases.

8. Contingencies

Several equal employment opportunity, employee compensation, environmental and postal rate class action lawsuits are pending against the Postal Service. In addition, there are certain pending suits and claims resulting from traffic accidents involving postal vehicles and injuries on postal properties, suits involving personal claims and property damages, and suits and claims arising out of postal contracts.

In July 1993, the Merit Systems Protection Board (MSPB) ruled that the restructuring initiated in fiscal year 1992 constituted a reduction-in-force (RIF) as defined by the Code of Federal Regulations. As a result, MSPB found that preference eligible employees who were placed in lower graded positions had been denied their procedural and substantive rights. The Office of Personnel Management (OPM) intervened on behalf of the Postal Service to appeal the decision made by MSPB to the U.S. Court of Appeals. The appeal was pending at September 30, 1993. Management and General Counsel believed that it was probable that the outcome of OPM's appeal would be favorable to the Postal Service; accordingly, no contingency accrual was recorded in fiscal year 1993. In August 1994, the appeals before the U.S. Court of Appeals were withdrawn by the Department of Justice at the request of OPM. As a result, the Postal Service is in the process of complying with the Board's decision regarding preference eligible employees who were placed in lower graded positions.

Management has recorded a liability in fiscal year 1994 for estimated losses resulting from the impact of the Board's decisions, including the resolution of appeals that are currently pending. The liability is based upon compliance cost estimates, assumptions on the number of appeals that ultimately will be filed, and management's and General Counsel's evaluation of the probability that appeals filed by various employee groups will result in losses to the organization. Differences between the assumptions and evaluations made by management and ultimate settlement will impact the liability recorded, and be reflected in future period earnings.

As a part of management's continuing evaluation of estimates required in the preparation of its financial statements, additional liabilities of approximately \$80 million were recorded in fiscal year 1993 to recognize increases in the estimated cost of litigation and claims asserted prior to 1993.

In the opinion of management and General Counsel, adequate provision has been made for amounts which may become due under the suits, claims, and proceedings discussed in the preceding paragraphs.

**Board of Governors
United States Postal Service**

We have audited the accompanying balance sheets of the United States Postal Service as of September 30, 1994 and 1993, and the related statements of operations and changes in net capital deficiency and cash flows for the years then ended. These financial statements are the responsibility of the United States Postal Service's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the United States Postal Service at September 30, 1994 and 1993, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Ernst & Young LLP

Washington, DC
November 15, 1994

Financial History Summary

	1994	1993	1992	1991	1990
Statement of Operations	(dollars in thousands)				
Operating revenue	\$49,252,000	\$47,418,000	\$46,151,120	\$43,322,604	\$39,201,405
Public service appropriation	0	0	0	0	0
Revenue forgone appropriation	131,400	164,000	544,680	561,868	453,425
Total operating revenue	49,383,400	47,582,000	46,695,800	43,884,472	39,654,830
Compensation and benefits	39,608,800	38,447,700	37,122,030	36,076,230	34,214,093
Restructuring costs	—	129,000	1,010,000	—	—
Other expenses	8,846,400	7,744,900	7,520,848	7,214,553	6,275,791
Total operating expenses	48,455,200	46,321,600	45,652,878	43,290,783	40,489,884
Income (loss) from operations	928,200	1,260,400	1,042,922	593,689	(835,054)
Interest expense on unfunded retirement liabilities**	(1,336,400)	(1,345,900)	(1,268,991)	—	—
Imputed interest on retroactive assessment for employee benefits	(97,300)	(69,900)	(81,432)	(90,507)	—
Interest expense on borrowings, net of income	(408,100)	(216,000)	(228,961)	(161,654)	(38,524)
(Loss) income before retroactive assessments and extraordinary item	(913,600)	(371,400)	(536,462)	341,528	(873,578)
Retroactive assessments for employee benefits					
OBRA 1990	—	—	—	(1,810,142)	—
OBRA 1993	—	(857,000)	—	—	—
Loss before extraordinary item	(913,600)	(1,228,400)	(536,462)	(1,468,614)	(873,578)
Extraordinary item — debt refinancing premium	—	(536,500)	—	—	—
Net loss	(\$913,600)	(\$1,764,900)	(\$536,462)	(\$1,468,614)	(\$873,578)
Balance Sheets					
Assets					
Current assets	\$2,683,000	\$4,478,100	\$6,027,379	\$4,863,268	\$4,528,341
Property and equipment, deferred retirement costs, and other assets	43,732,600	42,803,000	41,637,331	38,402,182	32,976,222
Total assets	\$46,415,600	\$47,281,100	\$47,664,710	\$43,265,450	\$37,504,563
Liabilities					
Current liabilities*	\$11,665,200	\$10,139,700	\$9,484,223	\$7,400,104	\$6,289,805
Other liabilities*	32,985,200	33,502,800	32,290,309	30,473,907	25,824,894
Long-term debt	7,726,700	8,686,300	9,173,294	8,138,375	6,667,530
Net capital deficiency	(5,961,500)	(5,047,700)	(3,283,116)	(2,746,936)	(1,277,666)
Total liabilities and equity	\$46,415,600	\$47,281,100	\$47,664,710	\$43,265,450	\$37,504,563
Analyses of Changes in					
Net Capital Deficiency					
Beginning balance	(\$5,047,700)	(\$3,283,100)	(\$2,746,936)	(\$1,277,666)	(\$401,629)
Net loss	(913,600)	(1,764,900)	(536,462)	(1,468,614)	(873,578)
Capital equipment transfers	(200)	300	282	(656)	(2,459)
Ending balance	(\$5,961,500)	(\$5,047,700)	(\$3,283,116)	(\$2,746,936)	(\$1,277,666)

* Certain reclassifications have been made to 1992 amounts to conform to 1993 presentation. Prior years have not been restated due to immateriality.

** Beginning in 1992, interest on unfunded retirement liabilities is presented separately. Such amounts for the prior years are included in compensation and benefits. Prior years are not comparable.

Impact of Revenue Forgone Appropriation*
on Revenues, Fiscal Year 1994

Classes of Service	Total Income of Service <i>(dollars in millions)</i>	Income from Revenues	Income from Appropriation	Appropriation as a Percentage of Income
First-Class Mail	\$29,395.3	\$29,395.3	none	none
Priority Mail	\$ 2,648.6	\$ 2,648.6	none	none
Express Mail	\$ 671.4	\$ 671.4	none	none
Mailgram	\$ 1.7	\$ 1.7	none	none
Second-Class Mail				
Within county	\$ 84.2	\$ 84.2	none	none
Outside county				
Nonprofit and classroom publications	\$ 284.1	\$ 284.1	none	none
Regular-rate publications	\$ 1,358.9	\$ 1,358.9	none	none
Fees	\$ 30.2	\$ 30.2	none	none
Total Second-Class Mail	\$ 1,757.4	\$ 1,757.4	none	none
Third-Class Mail				
Single-piece rate	\$ 201.5	\$ 201.5	none	none
Regular bulk rate	\$ 9,046.7	\$ 9,046.7	none	none
Nonprofit bulk rate	\$ 1,193.2	\$ 1,193.2	none	none
Fees	\$ 69.8	\$ 69.8	none	none
Total Third-Class Mail	\$10,511.2	\$10,511.2	none	none
Fourth-Class Mail				
Parcels (zone rate)	\$ 665.5	\$ 665.5	none	none
Bound printed matter	\$ 351.8	\$ 351.8	none	none
Special rate matter	\$ 291.7	\$ 291.7	none	none
Library materials	\$ 40.4	\$ 40.4	none	none
Fees	\$ 1.3	\$ 1.3	none	none
Total Fourth-Class Mail	\$ 1,350.7	\$ 1,350.7	none	none
Free mail for the blind and handicapped	\$ 61.6	\$ 0.0	\$ 61.6	100.00
Overseas absentee ballots	\$ 0.8	\$ 0.0	\$ 0.8	100.00
International Mail	\$ 1,410.1	\$ 1,410.1	none	none
Totals***	\$47,808.8	\$47,746.4	\$ 62.4*	0.1
Net impact of Revenue Forgone Reform				
Act of 1993			69.0**	
Revenue forgone recognized in 1994			\$131.4	

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act, as amended by the Revenue Forgone Reform Act of 1993.

** In 1993, Congress enacted legislation which altered certain aspects of the revenue forgone program and will reimburse the Postal Service for past amounts due — as well as prospective amounts to be earned through 1998 — over the next 42 years. In 1994, the Postal Service recorded a receivable of \$69 million to reflect the net impact of this legislation.

*** Totals may not add due to rounding.

Source of Income

	(dollars in millions)
Mail revenue	\$ 47,746
Special services	1,506
Government appropriations for free and reduced rate mail	131
Total operating revenue	49,383
Total operating expenses	48,455
Income from operations	928
Interest and investment income	193
Interest expense — borrowing	(602)
Interest expense — unfunded retirement liability	(1,336)
Imputed interest on retroactive assessment of employee benefits	(97)
Net loss	(\$ 914)

Analysis of Expenses,
Fiscal Year 1994

	(in percent)
Personnel compensation	60.64
Personnel benefits	17.80
Interest on unfunded liabilities	2.65
Vehicle/building maintenance	0.83
Transportation	6.64
Supplies and services	3.20
Rent, communications	1.18
Utilities	0.22
Interest	1.38
Depreciation and write-offs	2.07
Other	3.39
Total	100.00

The Spencer family

The Spencer family is a family of professionals. The father is a doctor, the mother is a nurse, and the two children are also doctors. They are a family of professionals who are committed to their careers and their family. They are a family of professionals who are committed to their careers and their family. They are a family of professionals who are committed to their careers and their family.





Analysis of Mail Volume,
Fiscal Year 1994

	<i>(pieces in billions)</i>		
	1994	1993	% chg*
First-Class	94.38	92.17	2.4
Second-Class	10.23	10.31	(0.8)
Third-Class	69.40	65.77	5.5
Fourth-Class	0.87	0.74	17.0
U.S. Postal Service	0.45	0.54	(17.6)
International	0.86	0.91	(5.1)
All Other	0.88	0.78	13.2
Total Mail	177.07	171.22	3.4

* Percent change reflects unrounded volume data

Percent of Total Volume by Class,
Fiscal Year 1994

	<i>(in percent)</i>
First-Class	53.29
Second-Class	5.78
Third-Class	39.20
Fourth-Class	0.49
U.S. Postal Service	0.25
International	0.49
All Other	0.50
Total	100.00

Operating Statistics

	1994	1993	1992	1991	1990
	<i>(in thousands of units indicated)</i>				
First-Class					
Pieces, number	94,376,106	92,169,448	90,781,037	90,284,596	89,269,649
Weight, pounds	3,737,129	3,672,186	3,496,383	3,398,026	3,339,790
Revenue	\$29,395,327	\$28,827,885	\$28,296,035	\$26,648,534	\$24,023,323
Priority Mail					
Pieces, number	768,262	664,373	584,356	530,407	517,850
Weight, pounds	1,330,348	1,174,613	1,108,590	1,017,227	1,007,067
Revenue	\$ 2,648,570	\$ 2,299,663	\$ 2,070,830	\$ 1,764,601	\$ 1,554,656
Express Mail					
Pieces, number	56,193	52,380	53,176	57,968	58,582
Weight, pounds	64,793	60,942	63,208	107,158	112,451
Revenue	\$ 671,439	\$ 627,073	\$ 639,019	\$ 667,988	\$ 630,707
Mailgram					
Pieces, number	5,329	7,179	7,453	11,942	14,001
Revenue	\$ 1,687	\$ 7,057	\$ 7,675	\$ 7,452	\$ 8,477
Second-Class					
Pieces, number	10,227,654	10,306,091	10,318,584	10,399,202	10,680,469
Weight, pounds	4,088,202	4,040,511	3,830,429	4,014,545	4,233,113
Revenue	\$ 1,757,455	\$ 1,740,431	\$ 1,751,180	\$ 1,667,801	\$ 1,509,346
Third-Class					
Pieces, number	69,400,101	65,773,180	62,547,188	62,429,896	63,725,110
Weight, pounds	8,797,373	8,006,537	7,122,868	7,386,612	7,648,088
Revenue	\$10,511,198	\$ 9,816,731	\$ 9,490,179	\$ 8,956,031	\$ 8,082,377

Operating Statistics

	1994	1993	1992	1991	1990
<i>(in thousands of units indicated)</i>					
Fourth-Class					
Pieces, number	870,609	743,847	764,504	695,393	662,977
Weight, pounds	2,618,001	2,284,346	2,396,768	2,074,460	2,109,342
Revenue	\$ 1,350,704	\$ 1 183,372	\$ 1 186,360	\$ 1,000,945	\$ 919,540
International Surface					
Pieces, number	122,410	124,417	132,934	146,464	165,901
Weight, pounds	116,914	125,076	120,229	133,952	146,216
Revenue	\$ 204,255	\$ 210,895	\$ 206,602	\$ 221,439	\$ 222,123
International Air					
Pieces, number	737,964	782,604	656,319	646,338	632,364
Weight, pounds	122,655	119,857	107,733	102,077	102,397
Revenue	\$ 1,205,834	\$ 1,195,620	\$ 1,069,229	\$ 984,573	\$ 941,078
U.S. Postal Service					
Pieces, number	448,029	543,674	551,402	612,545	538,427
Weight, pounds	72,120	80,935	91,648	79,624	97,388
Free for the Blind					
Pieces, number	49,563	52,799	46,439	35,859	35,440
Weight, pounds	28,140	33,261	30,701	26,299	30,235
Totals*					
Pieces, number	177,062,220	171,219,994	166,443,391	165,850,610	166,300,770
Weight, pounds	20,975,674	19,598,264	18,368,556	18,339,980	18,826,087
Revenue	\$47,746,469	\$45,908,726	\$44,717,110	\$41,919,364	\$37,891,627

* Penalty and franked mail are included in their classes of mail
Totals may not add due to rounding.

Operating Statistics

	1994	1993	1992	1991	1990
	<i>(in thousands of units indicated)</i>				
Registry					
Number of articles (paid and free)	22,592	23,852	25,285	41,190	45,312
Revenue	\$ 120,277	\$ 130,358	\$ 130,977	\$ 147,250	\$ 173,725
Certified					
Number of pieces (paid and free)	234,776	237,079	219,388	209,033	191,032
Revenue	\$ 421,445	\$ 425,503	\$ 392,807	\$ 362,370	\$ 309,652
Insurance					
Number of articles (paid and free)	32,086	30,773	34,113	35,645	33,102
Revenue	\$ 53,266	\$ 52,020	\$ 56,151	\$ 54,234	\$ 47,250
Collection-On-Delivery					
Number of articles	5,537	6,802	8,256	8,690	9,926
Revenue	\$ 16,675	\$ 20,268	\$ 24,845	\$ 25,577	\$ 26,093
Special Delivery					
Number of articles (paid and free)	642	331	820	2,101	1,161
Revenue	\$ 4,960	\$ 2,409	\$ 5,530	\$ 14,441	\$ 6,345
Money Orders					
Number Issued	196,685	186,404	177,584	162,453	155,141
Revenue	\$ 154,336	\$ 165,893	\$ 154,384	\$ 148,146	\$ 154,588
Other					
Box rent revenue	\$ 489,217	\$ 480,969	\$ 457,200	\$ 412,625	\$ 393,807
Stamped envelope revenue	\$ 17,211	\$ 18,154	\$ 18,147	\$ 12,955	\$ 25,181
Other revenue, net	\$ 228,134	\$ 213,850	\$ 193,969	\$ 225,642	\$ 173,137
Totals					
Special services revenue	\$ 1,505,521	\$ 1,509,424	\$ 1,434,010	\$ 1,403,240	\$ 1,309,778
Mail revenue	\$47,746,469	\$45,908,726	\$44,717,110	\$41,919,364	\$37,891,627
Operating revenue before appropriations	<u>\$49,251,990</u>	<u>\$47,418,150</u>	<u>\$46,151,120</u>	<u>\$43,322,604</u>	<u>\$39,201,405</u>

Operating Statistics

	1994	1993	1992	1991	1990
Employees					
Headquarters — L'Enfant Plaza	1,701	1,762	2,434	2,408	2,291
Headquarters — Field Support Units	4,117	4,157	5,663	5,715	5,691
Inspection Service (field)	4,308	4,181	4,324	4,316	4,259
Discontinued Operations	85	189	—	—	—
Field Career Employees					
Area Offices	1,262	1,062	—	—	—
Regional Offices	—	—	586	559	542
Postmasters/Installation Heads	26,803	25,304	26,496	27,100	26,995
Supervisors/Managers	34,616	31,936	43,185	43,801	43,458
Prof. Admin. Tech. Personnel	10,924	10,306	10,440	9,888	9,793
Clerks	265,294	257,147	268,049	280,918	290,380
Nurses	181	224	286	296	286
Mail Handlers	54,859	51,078	49,520	50,770	51,123
City Delivery Carriers	229,138	211,893	223,088	232,182	236,081
Motor Vehicle Operators	7,577	7,199	7,086	7,265	7,308
Rural Delivery Carriers & Substitutes					
on Unassigned Routes	45,049	43,694	43,283	42,876	42,252
Special Delivery Messengers	1,574	1,571	1,742	1,870	2,012
Bldg. & Equip. Maintenance Personnel	36,767	35,444	34,367	34,166	33,323
Vehicle Maintenance Personnel	4,689	4,576	4,741	4,831	4,874
Total Career Employees	<u>728,944</u>	<u>691,723</u>	<u>725,290</u>	<u>748,961</u>	<u>760,668</u>
Non-Career Employees					
Casuals	25,674	25,889	27,204	25,666	26,829
Non-Bargaining Temporary	613	1,452	603	548	414
Rural Subs/RCA/RCR/AUX	46,589	44,456	43,830	44,020	43,373
PM Relief/Leave Replacements	12,683	12,087	12,415	12,198	11,979
Transitional Employees	37,542	42,272	9,732	—	—
Offices, Stations, and Branches					
Number of post offices	28,657	28,728	28,837	28,912	28,959
Number of stations and branches:					
Classified stations and branches	5,682	4,692	4,685	5,029	5,008
Contract stations and branches	3,424	4,367	4,443	4,427	4,397
Community post offices	1,609	1,605	1,630	1,617	1,703
Subtotal	<u>10,715</u>	<u>10,664</u>	<u>10,758</u>	<u>11,073</u>	<u>11,108</u>
Total offices, stations, and branches	<u>39,372</u>	<u>39,392</u>	<u>39,595</u>	<u>39,985</u>	<u>40,067</u>

Multi-generational postal families

These families answered the Postal Family Search and are part of the Postal Service's long, proud heritage.

The Adams Family of Gratton, WV
 The Ainslie Family of Fly Creek, NY
 The Alessi Family of Cape Neddick, ME
 The Alexander Family of Morganton, GA
 The Ally Family of New Orleans, LA
 The Allyn Family of Stockton, CA
 The Anderson Family of Lockport, IL
 The Ankrum Family of St. Augustine, FL
 The Armbruster Family of St. Louis, MO
 The Armstrong Family of Cedar Springs, MI
 The Ayers Family of Hannibal, MO
 The Bailey Family of Arab, AL
 The Balsom Family of Springfield, MA
 The M. Barshay Family of Cleveland, OH
 The N. Barshay Family of Medina, OH
 The Bartosovsky Family of Carnegie, OK
 The Beach Family of Portland, OR
 The Bean Family of Sanbornville, NH
 The Beebe Family of Prather, CA
 The Belew Family of Poplar Bluff, MO
 The Berg Family of Ferdinand, IN
 The Bigornia Family of Chula Vista, CA
 The Casara-Blake Family of Canovanas, PR
 The Bodnar Family of Graytown, OH
 The Boland Family of Clarks Summit, PA
 The Bonos Family of Tamarac, FL
 The Bovard Family of Warren, PA
 The Brandon Family of Spanish Fork, UT
 The Breaux Family of New Ikena, LA
 The Brill Family of New Berlin, WI
 The P. Brown Family of Phoenix, AZ
 The R. Brown Family of New York, NY
 The Bumgarner Family of Rogersville, MO
 The Burden Family of Duncan, OK
 The Buresh Family of Stanwood, MI
 The Burkett Family of Batesburg, SC
 The Bushman Family of Greendale, WI
 The Campbell Family of Allegan, MI
 The Cason Family of Douglasville, GA
 The Castello Family of Nineveh, NY
 The Chance Family of Gresham, OR
 The Chapman Family of Chillicothe, OH
 The Charlton Family of Norman, OK
 The Chifo Family of Rowland Heights, CA
 The Church Family of Fairmont, WV
 The Clark Family of Charlton, NY
 The Burt-Connor Family of Roseville, MI
 The Cott Family of Orange, CA
 The DeCoursey Family of Rochester, NY
 The Harter-Crainelli Family of Plantation, FL
 The Cutolo Family of Melville, NY
 The Dabulskis Family of Pendleton, OR
 The Dahlberg Family of New London, MN
 The David Family of Lansing, MI
 The P. Davis Family of San Marcos, CA
 The W. Davis Family of Sparta, TN
 The Dean Family of Alexis, IL
 The DeCarlo Family of Centreville, VA
 The Desimas Family of Long Beach, CA
 The LeDesma Family of Gilbert, AZ
 The Dover Family of Hot Springs, AR
 The Dewesse Family of South Shore, KY
 The Dondero Family of Dorchester, NJ
 The Downs Family of Desoto, MO
 The Dulac Family of Carmel, ME

The Dunlap Family of Seattle, WA
 The DuRussel Family of Munger, MI
 The Edgcome Family of Knoxville, PA
 The Elier Family of Hummelstown, PA
 The Ellis Family of Lancaster, NY
 The Engaldo Family of Santee, CA
 The Ereno Family of San Jose, CA
 The Evans Family of Crown Point, IN
 The Ewald Family of South Bend, IN
 The Farrell Family of Cooksburg, PA
 The Fedderke Family of Defiance, OH
 The Fernandez Family of Rockledge, FL
 The Farrell Family of Haysville, KS
 The Fersch Family of Pickerington, OH
 The Filipp Family of Lake Jackson, TX
 The Fisher Family of Fort Worth, TX
 The Friend Family of Vancouver, WA
 The Fronda Family of San Jose, CA
 The Fuentes Family of San Jose, CA
 The Gianoulis Family of Belmont, NH
 The Gillis Family of Brewton, AL
 The Gilmore Family of Kansas City, MO
 The Gleave Family of Hatboro, PA
 The Glimpse Family of Port Byron, NY
 The Gonzales-De La O Family of Arleta, CA
 The Gorbacz Family of South Bend, IN
 The Grant Family of Ocala, FL
 The Gregorich Family of Chardon, OH
 The Gutapfel Family of Sunman, IN
 The Hackett Family of Charleston, IL
 The Haderthauer Family of Iselin, NJ
 The Hall Family of Means, KY
 The Hamilton Family of Blue Knob, PA
 The Hanke Family of St. Charles, MO
 The Barbara Hansen Family of Cashton, WI
 The Bob Hansen Family of Rockford, MI
 The Halford Family of East Point, FL
 The D. Hawkins Family of Mora, MN
 The J. Hawkins Family of Fresno, CA
 The Heard Family of Eastanollee, GA
 The Hedrick Family of Wapella, IL
 The Helton Family of Huntsville, AL
 The Herndon Family of Payette, ID
 The Hines Family of Birmingham, AL
 The Hissen Family of Minot, ND
 The Hitesman Family of Glens Ferry, ID
 The Hobratsch Family of Georgetown, TX
 The Hofheinz Family of Tallahassee, FL
 The Holloway Family of Ooltewah, TN
 The Holt Family of Salt Lake City, UT
 The Howe Family of Milbrook, IL
 The Hupman Family of Cartersville, GA
 The Jackson Family of Springfield, TN
 The Larson-Jasperson Family of Boulder City, NV
 The B. Johnson Family of Salt Lake City, UT
 The J. Johnson Family of Central Lake, MI
 The G. Jones Family of Indianapolis, IN
 The T. Jones Family of Midland, TX

The Jorgenson Family of American Fork, UT
The Davis-Joyce Family of Charlotte, NC
The Kahrs Family of Eudora, KS
The Kelly Family of Newton, NC
The Kilian Family of Macomb, MI
The Kink Family of Twenty-nine Palms, CA
The Knight Family of Canyon Country, CA
The Gusciora-Kots Family of Wallington, NJ
The Krifka Family of Kenosha, WI
The Kucharczky Family of Plantsville, CT
The Kuhn Family of Boise, ID
The Kunstek Family of Lakeland, FL
The Kylo Family of Ft. Myers, FL
The Firth-Larson Family of Venango, PA
The Lasher Family of Hampton, KY
The Layden Family of Moccasin, CA
The Dotson-Leko Family of Milford, UT
The Lewis Family of Captiva, FL
The Lilly Family of Beaver, WV
The Little Family of Fayetteville, AR
The Long Family of Bowling Green, KY
The Wymer-Lonsinger Family of Saugus, CA
The Lorenzo Family of Tampa, FL
The Loughery Family of Shinnston, WV
The Lucas Family of Redfield, AR
The Manhan Family of Ladd, IL
The Manning Family of Wilbraham, MA
The Mapp Family of Chicago, IL
The Marano Family of Lawrenceville, GA
The Marr Family of Marion, CT
The Marsh Family of Mullen, NE
The L. Martin Family of Barwick, GA
The W. Martin Family of Mena, AR
The Maskara Family of Yonkers, NY
The Massey Family of Concord, CA
The D. Mathews Family of Pendleton, IN
The  Mathews Family of Idaho Falls, ID
The W. Mathews Family of Anderson, IN
The Maxwell Family of Orem, UT
The May Family of Phoenix, AZ
The McCarty Family of Vernal, UT
The McClure Family of Bloomington, IN
The McCluskey Family of Frewsburg, NY
The McDonald Family of Cincinnati, OH
The McGinty Family of Tallassee, AL
The Meneses Family of San Antonio, TX
The Clifford-Memam Family of Blossvale, NY
The Moore Family of Vega, TX
The Moreland Family of Auburn, IL
The Morey Family of Vernon, CT
The Moses Family of Brandon, FL
The Musser Family of Phoenix City, AZ
The Neville Family of Alquippa, PA
The Newberry Family of Cimarron, CO
The Nichols Family of Everett, MA
The Cucci-Nieves Family of Staten Island, NY
The Nusbaum Family of Vaughnsville, OH
The Oie Family of Oakdale, MN
The Ostrander Family of Seneca, WI
The Parish Family of Fremont, OH
The Passamonte Family of Mt. Morns, NY
The Patrick Family of Gaffney, SC
The Perdew-Duncan Family of Woodbridge, VA
The Plegge Family of Highland, MI
The Porter Family of Yazoo City, MS

The Pratt Family of Sicklerville, NJ
The Price Family of Lincoln, NE
The Przyn Family of Crystal Beach, FL
The Radican Family of Indianapolis, IN
The Rameo Family of Livonia, MI
The J. Randazzo Family of Westland, MI
The S. Randazzo Family of Springfield, PA
The Randle Family of Martinsville, IN
The Raymond Family of E. Hampstead, NH
The Resinger Family of Harleysville, PA
The Richard Family of Hillsboro, MO
The Ring Family of Centralia, IL
The Rodgers Family of Ogden, IA
The Rosa Family of Toa Baja, PR
The Rupe Family of Kenyon, MN
The Ruppel Family of Appleton, WI
The Rusing Family of West Chester, PA
The Rutland Family of Fitzpatrick, AL
The San Family of Denver, NC
The Samaniego Family of Santa Ana, CA
The Sanders Family of Ft. Lauderdale, FL
The Sarkkinen Family of Yacolt, WA
The Schmidt Family of Chathamne, KS
The Schnepf Family of Westchester, PA
The Schreck Family of Bronx, NY
The Schulte Family of Argyle, MO
The Schwab Family of Willard, OH
The Scott Family of Ft. Lauderdale, FL
The Heck-Sertz Family of North Highlands, CA
The Shaffer Family of New Paris, OH
The Shatzel Family of San Jose, CA
The Shaw Family of Vandalia, MO
The Sill Family of Aubrey, TX
The Sisti Family of New Hartford, NY
The Smischney Family of Saum, MN
The C. Smith Family of Hicksville, NY
The K. Smith Family of Mifflinburg, PA
The Spencer Family of Los Angeles, CA
The Springstroh Family of Melbourne, FL
The Sprosty Family of Cleveland, OH
The Stallcup Family of Scotland, TX
The Stephens Family of Ft. Worth, TX
The Stewart Family of Glasgow, KY
The Stolpe Family of Somersworth, NH
The Strader Family of Colliers, WV
The Strickland Family of Gamer, NC
The Stubblefield Family of Kennard, TX
The Sundell Family of Mundelein, IL
The Sutfin Family of Hornell, NY
The Taresse Family of Sheffield Lake, OH
The Taylor Family of Aztec, NM
The Thalson Family of Ionia, MI
The M. Thompson Family of Elmwood, TN
The R. Thompson Family of Holly Hill, FL
The Tomlin Family of Orange, TX
The Turner Family of Plainview, AR
The Underwood Family of New Waverly, TX
The Valia Family of Lehigh Acres, FL

The VanDyke Family of Greenville, NC
The Villa Family of Phoenix, AZ
The Vincke Family of Chesaning, MI
The Vognsen Family of Shawnee, KS
The Wallis Family of Muncy, PA
The Walsh Family of Phoenix, AZ
The Watkins Family of St. Augustine, FL
The Way Family of Omaha, NE
The Welch Family of Huntsville, AL
The Weller Family of Davis, CA
The Wells Family of Ft. Wayne, IN
The Wesson Family of Gadsden, AL
The Whelan Family of Lewiston, ME
The Whipple Family of Farmington, NM
The Whitaker Family of Moultrie, GA
The A. White Family of Bolt, WV
The K. White Family of West Valley City, UT
The Wickersham Family of Augusta, OH
The Wickline Family of Jackson, OH
The Wildy Family of Brooklyn, NY
The Wilkeson Family of South Bend, IN
The N. Williams Family of Tampa, FL
The V. Williams Family of Lerna, IL
The Wilson Family of Starr, SC
The Wynne Family of North Port, FL
The Zentner Family of Sandy, UT
The Zimmer Family of Port Richey, FL
The Zimmerman Family of Ft. Washington, MD

Comprehensive Statement on Postal Operations

1993

CRITERIA FOR OUR SUCCESS AS A BUSINESS

Accountability, Credibility, Competitiveness



Introduction

This is the eighteenth annual *Comprehensive Statement on Postal Operations* transmitted to the Congress in accordance with former section 2401(g) — recently redesignated section 2401(e) — of title 39, United States Code. This law requires the Postal Service to submit to its appropriations and oversight committees, in the House and Senate, an annual statement discussing in detail its current and planned operations, policies, financial expenditures, and obligations. This statement is organized in a format to comply with the literal requirements of the statute. Chapter 1 discusses the Postal Service's compliance with policy directives set forth in 39 U.S.C. 101. Chapters 2 and 3 cover postal operations in general and the current financial status of the postal system.

The information in the *Comprehensive Statement on Postal Operations* and in the *Annual Report of the Postmaster General* is intended to assist the appropriations and oversight committees that have jurisdiction over the Postal Service with their annual oversight and budget review process. The Postal Service welcomes the opportunity to furnish any additional information that may be required by the Congress to carry out its oversight responsibilities.

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Chapter 1

Compliance with Statutory Policies

A. Fundamental Service to the People

(39 U.S.C. 101 (a))

1. General

In advance of a national call to "reinvent government," the Postal Service in 1993 built upon the commitment to its customers and employees that began with the historic organizational restructuring in July 1992. The Postal Service focused its attention on advancing the goals of customer satisfaction, employee commitment, and revenue income generation that were established by Postmaster General Marvin Runyon at the outset of his appointment. With a less bureaucratic and more efficient structure, the Postal Service was able to expand the initiatives essential to a responsive and competitive organization. As a result, customers acknowledged that services had improved; employees expressed greater job satisfaction; and postage rates remained stable as part of an unprecedented four-year cycle without a general rate increase.

In 1993, the Postal Service defined its role as a modern competitive business, committed to its customers and employees, by issuing a statement of "Purpose, Vision, and Guiding Principles." It describes what the Postal Service is, what it needs to do to ensure a future in the communications business, and the values that drive the organization. Accompanied by a new corporate logo, the Postal Service's "Purpose, Vision, and Guiding Principles" reflect the commitment of an organization to cast aside its bureaucratic past and create a productive and responsive communications service.

Customer satisfaction with the Postal Service improved during fiscal year 1993. The results of the independently administered Customer Satisfaction Index (CSI) showed that 89 percent of the nation's households rated their overall satisfaction with the Postal Service as "excellent," "very good," or "good" at the end of the fiscal year. This represents an increase of two percentage points over CSI ratings at the end of fiscal year 1992. Also, 58 percent of households rated the Postal Service as "excellent" or "very good," an increase of three points over the same period in 1992.

First-Class Mail service also improved during fiscal year 1993. The independent, external First-Class measurement system showed increased scores for all three categories. Overnight service performance improved over the previous year, moving from 82.9 percent on-time performance to 83.6 percent. Service performance for two-day service commitment areas increased by 1.6 percentage points, while three-day performance increased by 1.1 percentage points.

The Postal Service expanded the range of the independent customer satisfaction and service performance measurement systems in 1993 through the award of two major contracts. The Gallup Organization Inc. was awarded a contract to administer the Business Customer Satisfaction Index (BCSI), which will sample a full range of business customers on a set of service attributes critical to their business. This system to measure how well the Postal Service is meeting business customer needs will begin operation in mid-1994.

Price Waterhouse was awarded a contract in 1993 to conduct an independent measurement of service performance for third-class mail. Known as External Third-Class Mail Measurement (EX3C), the new system was tested this fiscal year, and full implementation is scheduled for fiscal year 1994.

The Postal Service's automation program was advanced in February 1993 when the Board of Governors approved the purchase of 1,144 additional delivery bar code sorters (DBCSs). This additional purchase will nearly double the number of DBCSs in use throughout the Postal Service. The Postal Service expects to save about \$275 million each year from the latest purchase of sorters once they are fully operational.

The results of two nationwide Employee Opinion Surveys were released in 1993. Designed as a vehicle for cultural change within the Postal Service, the surveys reflected the strengths and weaknesses of the organization and indicated a recognition of the need for overall structural changes. In the first survey, conducted in 1992, employees favorably ranked the categories of pay, benefits, and job security.

The survey revealed that employees enjoyed their work and expressed pride in working for the Postal Service. At the same time, the survey indicated that many employees felt the organization was insensitive to individual needs or concerns.

In response to the many cultural and managerial changes implemented throughout the year, the results of the 1993 Employee Opinion Survey showed substantial improvement in several areas. Employees reported that the Postal Service was doing a better job delivering quality service, improving relationships, and making the organization a better place to work. The 1993 survey also indicated the need to focus on working conditions, employee feedback and cooperation, and the recognition of quality performance.

Postmaster General Runyon introduced the "360-degree feedback process" in 1993 to help individual managers assess and improve their human relations skills. Under this process, managers receive feedback from their staff, peers, and managers, in addition to completing a self-analysis. The manager's performance is evaluated "blind" (without name or location) by members of the corporate Leadership Team. Each manager will be ranked. Those found to have serious difficulties will be given the opportunity to improve their skills. Only managers ranked in the uppermost categories will be considered for promotion. Initially, the program will apply only to officers and Postal Career Executive Service managers. Discussions are under way with the postmaster and supervisor associations to expand subordinate feedback to all Executive/Administrative Schedule employees in the future. The results of the feedback process will be available in fiscal year 1994.

The Postal Service initiated the Performance Cluster approach to attaining corporate goals in 1993. The process calls for key managers at the district and plant levels to form teams called performance clusters to plan and measure efforts to achieve customer satisfaction, employee commitment, and revenue income generation. Performance clusters embrace the concept of team effort and shared reward in attaining corporate goals. The performance award system for managers will be based on the overall success of the Postal Service in reaching specific goals and the success of each cluster in attaining its targets. Area leadership teams will get rewards based on the number of field clusters that achieve realistic goals. Headquarters managers will be evaluated by areas on field support and by strategic inputs.

The Postal Service management structure was fine-tuned in August 1993 to better serve customers and employees. Throughout the restructuring process, management units were constantly monitored to ensure that the simplified and streamlined structure promoted more efficient, responsive, and competitive service. As part of the new realignment, Postal Service field operations were placed under a senior vice president of Customer Service and Sales and a senior vice president of Processing and Distribution, both reporting to the Executive Vice President and Chief Operating Officer. The 10 Customer Service and Sales Area Offices oversee 85 customer service districts, and the 10 Processing and Distribution Area Offices have administrative jurisdiction over 349 mail processing distribution centers and facilities. Three additional senior vice presidents, holding the positions of Chief Financial Officer, Chief Marketing Officer, and General Counsel, were given expanded responsibilities.

Part of this realignment is designed to add greater definition to the roles of Marketing and Customer Service and Sales. The Marketing function will concentrate on product and business development, and the Customer Service and Sales function will focus on day-to-day customer needs. The Marketing structure added three vice president positions under the new structure: Product Management, Marketing Systems, and Technology Applications.

In order to better focus resources on government relations activities, the new management structure included the establishment of a vice president position for Legislative Affairs. The position of Controller was also upgraded to the vice president level in recognition of the responsibilities of that position.

Postmaster General Runyon established a solid foundation for cultural change in the Postal Service through the introduction of the Leadership Meeting concept. These weekly meetings between the Postmaster General, all Postal Service officers, and the national presidents of the employee organizations have created the opportunity for the presidents to participate at the highest level of the decision-making process in the Postal Service. This type of regular, substantive discussion has allowed the leaders of the employee organizations to enjoy a true partnership role in shaping the direction of the Postal Service.

Diversity Development has been a major contributor to cultural and management change within the Postal Service. During fiscal year 1993, Diversity Development finalized its structure and staffing and established objectives to meet the three corporate goals. This function serves both postal employees and customers by ensuring that the organization recognizes and appreciates the needs of all members of our culturally diverse society.

There are four major functions within Diversity Development: Affirmative Action, Customer Interface, Vendor Programs, and Policies and Planning. In addition, an Education and Research team operates as a direct reporting function to the vice president, Diversity Development. The Affirmative Action unit primarily has responsibility for the field network of 60 specialists. It is also responsible for ensuring affirmative action compliance and monitoring, promoting diversity awareness within the organization, interfacing with Quality, establishing and maintaining an international exchange program, assisting field management with diversity issues, and the Special Emphasis activities. Vendor Programs, described in the "Procurement" section later in this chapter, serves as a diversity advisor for socioeconomic business outreach. Customer Interface helps identify business needs to serve diverse domestic and international customers. Policies and Planning will establish system payroll, timekeeping, budget, and administration of Diversity Development staff. This unit will also assist other functions to ensure that diversity is considered in postal policy and serves as external liaison with other government agencies and private industry. The Education and Research Team provides education and orientation models, programs, and processes; conducts research, evaluation, surveys, and profile trends analysis; develops methodology for cultural assessment; and assists in the analysis of the Employee Opinion Survey.

The Postal Service ended fiscal year 1993 with a loss of \$371 million — before considering the effect of the OBRA of 1993 and the debt refinancing — and a total net loss of \$1.76 billion after accounting for these one-time expenses. While these figures represent a serious financial challenge to the organization, initial forecasts for fiscal year 1993 financial performance indicated that expenses would exceed revenue by \$2.2 billion. Savings associated with the administrative restructuring, productivity gains, and several cost reduction programs contributed to the actual reduction in the projected deficit. The one-time expenses accounting for the net loss in fiscal year 1993 include \$537 million in debt refinancing and \$857 million required under the Omnibus Budget and Reconciliation Act of 1993 to help reduce the federal deficit. The debt refinancing will save the Postal Service \$2 billion over the next 20 years.

In the face of chronic appropriation shortfalls for special rate mail, Congress overhauled the process by which postage for nonprofit mailers is funded. The fiscal year 1994 Treasury/Postal Service Appropriation bill eliminated the revenue forgone process for funding special rate mail. At the end of a six-year phase-in period, nonprofit mailers will pay for half of the overhead costs associated with this mail; postal ratepayers will assume the costs of the other half. The bill also contained several reforms to minimize the commercial use of nonprofit postage rates. Under the bill, the Postal Service will receive a modest annual appropriation for 42 years to recover past revenue forgone shortfalls together with revenue lost during the phasing period.

Postal Service customers continue to enjoy the least expensive basic letter rate in the industrialized world. Examples of initial postage rates for domestic letters in other countries are: Japan — 57.3 cents, Germany — 59.4 cents, Great Britain — 35.6 cents, and Canada — 33.1 cents. These postage rates have been converted to U.S. cents based on published foreign exchange rates in effect on November 30, 1993.

On May 6, 1993, Postal Service facilities in Dearborn, Michigan, and Dana Point, California, were the scenes of tragic incidents of workplace violence that left three postal employees dead and three others wounded. Postmaster General Runyon immediately visited both sites while crisis intervention and professional counseling services were provided to the employees and their families in both locations. In response to these incidents, employee focus groups were established nationwide to assess local working climates and provide an open forum of discussion for all employees. The Postal Inspection Service conducted a comprehensive investigation of the incidents and established a hotline to respond to any threats made against postal employees. The Postal Service also awarded a contract to a private firm to conduct preemployment background checks. These services are described in the "Selection and Testing" portion of this chapter.

In recognition of the pervasive and complex nature of workplace violence throughout American society, the Postal Service sponsored a national symposium on the subject, featuring some of the nation's most experienced medical, professional, and academic experts. Held on December 16, 1993, in Washington, DC, the "Symposium on a Growing American Phenomenon: Workplace Violence" was designed to assist corporate leaders and human resources professionals in preventing violent workplace incidents. U.S. Surgeon General Dr. M. Joycelyn Elders was the keynote speaker at the day-long event.

2. Quality

The objective of the Postal Service's *Quality First!* process is to ensure that the organization maintains its focus on the customer. During 1993, the Quality Department concentrated its efforts in four

main areas. First, the training "cascade," which began at the officer level in 1992, continued with training at the area offices. This training covered leadership, quality methods, and teamwork and brought together the Processing and Distribution, Marketing, and Customer Service and Sales functions of the area offices. The cascade of training began at the Performance Cluster level in September. By the end of 1993, the leaders of more than 80 percent of the Performance Clusters had participated in the first phase of training. Second, *Quality First!* consultant positions were established at the area offices and in several headquarters departments to support the quality process. Third, the Quality Department provided staff support to the development of the Performance Cluster concept at the plant and district levels. Fourth, the Quality Department supported several teams, task forces, and work groups throughout the organization. This support included meeting facilitation, just-in-time training, action planning, and *Quality First!* consultation.

3. Board of Governors

The Board of Governors is an 11-member governing body of the Postal Service comparable to a board of directors of a privately owned corporation. The Board of Governors meets monthly and other times, as needed, to conduct postal business. The membership of the board is comprised of nine "governors" who are appointed by the president, with the advice and consent of the Senate, to represent the public interest generally. Not more than five of the nine governors may be adherents of the same political party. Governors' appointments are for nine years or the unexpired portion of a term that may be vacated by death or resignation of a sitting governor. Terms are staggered so that one term expires every December, though a governor whose term has expired may continue to sit on the board with full authority until a successor has been appointed, but not to exceed one year. The governors appoint the Postmaster General, who serves at their pleasure without a specific term of appointment. The governors and the Postmaster General appoint the Deputy Postmaster General, who serves at their pleasure. These 11 individuals comprise the Board of Governors. At the January meeting each year, a chairman and vice chairman are elected by the board from among its members.

The Postal Reorganization Act reserved for the governors alone the authority to approve, allow under protest, reject, seek judicial review of, or unanimously modify recommended decisions of the Postal Rate Commission on mail rate adjustments and mail classification changes.

Of the 13 meetings held by the Board of Governors during fiscal year 1993, 11 sessions were held in Washington, DC. One meeting was held in Nashville, Tennessee, to give the governors the opportunity to meet with mailers, and another meeting was held in Indianapolis, Indiana, in order to visit the Eagle Hub operations. The Audit Committee, the only standing committee of the board, held five meetings to consider matters covered by its charter.

In October 1992, the governors rejected the Postal Rate Commission's recommended decision in Docket No. MC91-3, a case requesting discount rates for pallet-loaded second-class mail. Also in October, the board approved a filing with the commission seeking discount rates for a new bulk small parcel service (Docket No. MC93-1) and authorized management to borrow up to \$5 billion for restructuring debt held by the Department of the Treasury's Federal Financing Bank.

On December 11, 1992, the president directed the board to withdraw Postal Service filings made in the United States Court of Appeals for the District of Columbia Circuit, claiming that federal law prohibits the Postal Service from litigating without prior authorization from the Department of Justice. The Postal Service filings in court challenged aspects of the Postal Rate Commission's recommended decision in Docket No. R90-1. On January 4, 1993, the board, in a split vote, respectfully declined to withdraw the filings. On January 15, 1993, the court concluded that the Postal Service does have limited independent litigating authority and issued an order permitting the Postal Service to represent itself.

On December 8, 1992, Governor Nevin's term expired, but he continued to hold office absent the appointment of a successor. On January 8, 1993, the Congress being in recess, President Bush appointed Thomas Ludlow Ashley to succeed Governor Nevin for the term ending in December 2001. Governor Nevin filed suit in the United States District Court for the District of Columbia on the basis that the president's appointment of Mr. Ashley was not a valid exercise of the president's recess appointment power. On July 23, 1993, the court ruled that there was no "vacancy" for the president to fill in January because Governor Nevin was serving as a "holdover." The court found the purported recess appointment and commission of Mr. Ashley as a governor of the United States Postal Service null and void.

In March 1993, the board approved temporary changes to the Domestic Mail Classification Schedule (DMCS) amending the prebarcoding requirements for automation rate mail. This approval incorporated changes to the DMCS proposed by the Postal Service in a case then pending before the Postal Rate

Commission (Docket No. MC93-2). In August, the board accepted the Postal Rate Commission's recommended decision in Docket No. MC93-2, and established permanent changes to the DMCS, superseding the March temporary changes.

In March 1993, two separate ad hoc committees were established to review the bylaws of the board and the Postal Service's capital investment process, respectively. In July, the board considered the Bylaws Committee's recommendations and approved changes to the bylaws.

In April 1993, the board approved a proposed settlement with parties regarding litigation over the award of the Eagle Network contract for air transport of mail matter.

During the year, the board considered several capital investment proposals, each costing at least \$10 million. Funding was approved for the procurement of mail processing equipment, advanced facar/canceler systems, remote bar coding systems, delivery bar code stacker systems, delivery bar code sorters, integrated mail handling systems, and additional funding for the Murray Hill Station in New York City.

In July 1993, Governor John Griesemer died at his Springfield, Missouri, home. Mr. Griesemer was initially appointed to the Board of Governors in April 1985 and reappointed by President Ronald Reagan for a term that was due to expire in December 1995. He was elected Chairman of the Board of Governors in 1987 and again in 1988.

The appointment of Einar Dyhrkopp of Shawneetown, Illinois, to be a postal governor was confirmed by the U.S. Senate in November 1993. Mr. Dyhrkopp's appointment fills the expired term of Governor Crocker Nevin. Nominated by President Clinton, Mr. Dyhrkopp is president and founder of Tecumseh International Corporation. The new governor has an extensive business background and formerly served as mayor of Shawneetown.

B. Service to Small or Rural Communities

(39 U.S.C. 101 (b))

By law, the Postal Service is directed to serve "as nearly as practicable" the entire population of the United States. To ensure this service, the Postal Service has established a nationwide network of postal facilities, centralized delivery units, and rural and highway contract delivery routes. At the end of fiscal year 1993, this service network consisted of 28,728 post offices, 9,059 stations and branches, and 1,605 community postal units.

During 1993, there were 49,236 rural delivery routes delivering to 22.7 million mail receptacles. The Postal Service added 933 new rural routes in 1993. Rural carriers traveled a total of 807.4 million miles — an average of almost 2.7 million miles each delivery day.

It is occasionally necessary to close a post office or consolidate operations by converting an independent facility to a station, branch, or contract post office. This action is taken when there is a change in community postal needs or when suitable quarters to house a post office are no longer available. All proposals to discontinue or consolidate a post office are carefully evaluated on a case-by-case basis consistent with the statutory criteria found in 39 U.S.C. 404(b). The Postal Service has established formal administrative procedures to review discontinuance proposals and provide local customers with the findings. Customers may appeal a discontinuance proposal to the independent Postal Rate Commission. When a post office is closed or consolidated, customers are provided with equivalent or improved service.

The Postal Service closed or consolidated 135 post offices during fiscal year 1993. Customers appealed 19 to the Postal Rate Commission. Of these, six decisions to close or consolidate a facility were affirmed, two were dismissed on procedural grounds, one was dismissed for lack of substantive jurisdiction, and two were remanded to the Postal Service for further consideration. The Postal Service withdrew its determinations to close or consolidate in five cases, and three appeals are still pending.

C. Employee Compensation and Career Advancement

(39 U.S.C. 101 (c))

1. Collective Bargaining

Facing an expiration date of November 20, 1993, the National Rural Letter Carriers' Association (NRLCA) and the Postal Service began discussions early in the year to extend the provisions of the 1990-1993 agreement. On May 11, 1993, the parties signed a two-year agreement, which will expire on

November 20, 1995. This marked the first time that a major union and the Postal Service settled the terms of a collective bargaining agreement well in advance of the expiration date.

The contract includes an increase equal to the dollar amount received by Level 5 employees covered under the 1990-1994 National Agreement with the American Postal Workers Union (APWU) and the National Association of Letter Carriers (NALC). The increase went into effect November 27, 1993. The contract also contains a provision that pays rural carriers approximately the same dollar amount received by Level 5 employees for any increases in pay from November 21, 1994, through November 20, 1995. The agreement covers approximately 47,000 career rural carriers and 40,000 substitute carriers.

The Postal Service and the National Postal Mail Handlers Union reached an agreement on November 20 to extend for an additional year the terms of the 1990-1993 agreement. At press time, it had not been ratified by the union membership. Among other provisions, it includes a general increase in wages of 1.6 percent, the Striving for Excellence Together (SET) payment, and Health and Dependent Care Flexible Spending Accounts. Certain mail handler craft employees also will be offered an opportunity to exchange a portion of their annual leave for cash. Agreement also was reached on testing a new discipline procedure. The agreement covers more than 51,000 career employees.

On November 2, 1993, the Postal Service and the APWU resolved their dispute over the contracting out of keying jobs associated with the Remote Bar Coding System (RBCS). This dispute arose out of a decision by the Postal Service to contract out thousands of new keying jobs created by the introduction of RBCS. After an arbitrator ruled on May 20, 1993, that the keying jobs must be offered to current employees before they are contracted out, the parties embarked on intensive negotiations over a five-month period, which culminated in an agreement that the keying work will be done with 30 percent postal career work hours and 70 percent with transitional employee hours. A significant feature of the landmark agreement also provides for improved labor/management cooperation between the Postal Service and the APWU.

Contract talks began in August 1992 between the Postal Service and the National Postal Professional Nurses (NPPN), which represented approximately 300 registered nurses in 120 health units across the country. During Postal Service restructuring, close attention was paid to the medical program to reduce both medical and workers' compensation costs. The parties were unable to reach a negotiated settlement, and the dispute went before a three-member fact-finding panel and then a five-member interest arbitration panel. The arbitration panel, chaired by neutral Gladys Gershenfeld, issued its award on May 11, 1993. It provided that approximately half of the health units would remain open, while the remaining units would be closed. Medical services in facilities without health units will be provided on a fee-for-service basis.

No nurses were laid off as the result of Postal Service restructuring or the contract negotiations. Nurses previously employed in the closed units were given the opportunity to apply for other nurse positions within their commuting area, apply for the new Nurse Administrator position, apply for a severance package, or assume a Human Resources Associate position assigned to Injury Compensation.

The Fraternal Order of Police - National Labor Council U.S.P.S. No. 2 (FOP-NLC) and the Postal Service agreed to accept the provisions of the labor agreement that had been negotiated by the predecessor union, the Federation of Postal Police Officers. That agreement, which covers approximately 1,200 postal police officers, will expire on April 15, 1994.

This year also saw the resolution of an outstanding issue remaining from the 1991 Mittenenthal Award, which covered approximately 510,000 career employees represented by the APWU and the NALC — the health benefits issue. Despite efforts to settle the matter over the course of the year, the parties were unable to reach an agreement. Consequently, in accordance with the terms of the 1991 Mittenenthal Award, the dispute went before a new arbitrator designated by Chairman Mittenenthal.

The NRLCA will address the subject of health benefits in collective bargaining/interest arbitration with the employer in early 1994 pursuant to previous agreement with the parties.

On June 4, 1993, arbitrator Rolf Valtin issued his interest arbitration award covering health benefits. Beginning in 1994, the employer's share for health benefits shall be reduced by 1 percent a year until 1997. This premium share modification is designed to comply with the benefit comparability directive of the PRA and bring the employer's costs for health benefits closer to practices prevailing in the private sector of the economy. This would raise an average employee's contribution for family health care coverage approximately two dollars each biweekly payment period. However, beginning in 1994, employee health benefit premiums will be paid on a pretax basis. As a result, higher premium expenses will be offset by the tax savings for many employees. This was the first time in the history of collective bargaining under the PRA that the Postal Service achieved a favorable change in the health benefits articles.

The Valtin Award also expanded eligibility for the Flexible Spending Account (FSA) plan to all bargaining-unit employees covered by the agreement. Previously, only management employees were eligible for the plan. Finally, the Valtin Award, which initially applied only to employees covered by the APWU and NALC bargaining units, was extended to other bargaining units covered by the APWU; to the nurses by means of the Gershenfeld Award; and to postal police officers by virtue of a memorandum of understanding. Pursuant to the extension of the collective bargaining agreement between the Postal Service and the National Postal Mail Handlers Union, AFL-CIO on November 20, the contribution levels established in the Valtin Award will apply to mail handlers beginning in 1995. FSAs and pretax payment of health insurance premiums will be available to mail handlers in 1994.

On November 12, 1993, the United States Court of Appeals for the District of Columbia Circuit denied the National Labor Relations Board's application for enforcement and vacated a board order issued in March 1992, when the board found that the Postal Service violated the National Labor Relations Act by changing the work hours of certain employees, eliminating Sunday collections of mail, and closing post offices on Christmas Day 1987 and New Year's Day 1988 without bargaining with the American Postal Workers Union. The Postal Service took these actions to reduce its budget and comply with the Omnibus Budget and Reconciliation Act of 1987. In opposing the board's application for enforcement, the Postal Service successfully contended that the National Agreement with the union permitted these operational changes.

In 1993, the Postal Service settled two consolidated unfair labor practice cases with the National Labor Relations Board. In one case, the Postal Service agreed to provide supervisor disciplinary records to the requesting unions if the records are relevant to the processing of a grievance. In the second case, the Postal Service agreed to recognize the national unions' right to delegate information requests to their local unions.

2. Personnel

a. Postal Career Executive Service. At the close of fiscal year 1993, there were 975 individuals in the ranks of the Postal Career Executive Service (PCES). Of this total, 605 individuals held PCES I executive positions and the remainder served in Executive/Administrative Schedule (EAS) positions as a result of Postal Service restructuring. There were 24 PCES II officer positions in the Postal Service at the end of the fiscal year. Minorities and women held 282 of the PCES I executive positions and seven of the officer positions. The figures represent 29 percent of the total number in both cases.

b. Postmasters. Incumbents held 26,960 of the 28,728 total postmaster positions at the end of fiscal year 1993. The remaining vacancies will be filled during the early part of fiscal year 1994 using the competitive selection process.

c. Consultation with Management Associations. In accordance with the Postal Reorganization Act, the Postal Service held regular consultative sessions with the National Association of Postal Supervisors (NAPS), the National Association of Postmasters of the United States (NAPUS), and the National League of Postmasters of the United States. During fiscal year 1993, the Postal Service, NAPS, NAPUS, and the League jointly developed a new merit pay system for employees within the EAS-20 and above category. This program places great emphasis on team performance and recognition. Annual merit awards for fiscal year 1993 were based on national and local group performance, using the components of the Striving for Excellence Together (SET) program.

The Postal Service and its management associations also developed a process to establish a fiscal year performance evaluation cycle for all EAS step schedule employees, including A-E postmasters. Beginning in fiscal year 1994, EAS step schedules will be eliminated. All employees within the EAS-19 and below category will be placed in grade ranges with minimum, midpoint, and maximum parameters.

Following discussions with NAPS officials which began in 1992, the Postal Service announced on June 3, 1993, that employees affected by the restructuring will receive full saved pay in lieu of frozen salary. These employees are entitled to all COLAs and general and merit increases. In addition, PCES employees affected by the restructuring will continue to receive their PCES benefits indefinitely.

d. Transition Centers. The Postal Service established career transition centers to assist more than 1,000 headquarters and regional employees displaced by the administrative reorganization. The centers, jointly operated by the Postal Service and a career management firm, provided counseling, training, and

temporary and permanent job placement assistance. During fiscal year 1993, placement efforts focused on finding positions for employees whose positions were affected by the restructuring. Throughout this process, no employees were laid off. By November 1993, fewer than 80 employees originally assigned to the transition centers lacked permanent assignments. As a temporary accommodation, these remaining employees were given detail assignments within the organization.

e. Management by Participation. On May 10, 1993, the national Management by Participation (MBP) Steering Committee officially endorsed the concept of field leadership councils. The MBP committee agreed that its formal structure would be transformed into field leadership councils within the next year. The MBP committee believes that this approach will empower supervisors, postmasters, and managers to solve problems at the local level and bring shared responsibility to the workplace.

f. Employee Involvement Process. During fiscal year 1993, the Employee Involvement/Quality of Work Life processes with the National Association of Letter Carriers and the National Rural Letter Carriers' Association were restructured to reflect the new organization of the Postal Service. Both processes have endorsed the goals of customer satisfaction, commitment to employees, and operational and financial success. The groups will focus on mainstream activities, such as automation implementation and labor/management relations, which directly affect achievement of these goals.

The Quality of Working Life process with the National Postal Mail Handlers Union was restructured to provide opportunities for mail handlers and supervisors to become involved in the identification and solution of problems that affect their work and the quality of their working life. Additional focus has been placed on providing for improvements in customer satisfaction and service, financial performance, and commitment to and by employees. The process also will focus on improved labor/management relations in pursuit of Postal Service corporate goals.

g. Equal Employment Opportunity

(1) Affirmative Action. Diversity Development assists field managers in completing Affirmative Employment Plans and is responsible for developing the national Affirmative Action plan that is submitted to the Equal Employment Opportunity Commission. Diversity Development also monitors the accomplishment of goals as specified in the Affirmative Action plans.

(2) Equal Employment Opportunity Complaints. During fiscal year 1993, the Postal Service's Complaint Processing Program changed significantly as the result of the organizational restructuring and the implementation of the Equal Employment Opportunity Commission's (EEOC) new regulations. Five Equal Employment Opportunity (EEO) Compliance and Appeals Processing Centers were established within the Postal Service to oversee complaint processing at the 85 district offices.

In the past, the Postal Service tracked the number of requests for pre-complaint counseling. During fiscal year 1993, reporting systems were changed to record the number of pre-complaint counselings actually conducted. This approach provides a more meaningful reflection of EEO activity at the initial stage of the complaint process. During the year, 23,339 pre-complaint counselings were conducted. EEO managers continued their emphasis on the early resolution of EEO complaints, and 8,858 formal complaints were filed during the fiscal year. This represents a resolution rate of 62 percent.

The Postal Service remains a leader of federal agencies in completing EEO cases in a timely manner. In fiscal year 1992, the latest reporting period published by the EEOC, the average processing time for formal complaints in the Postal Service was 233 days compared with the federal sector average of 349 days.

h. Selection and Testing. During fiscal year 1993, the Postal Service processed almost 300,000 entrance examinations. Both a revised clerical abilities test and a revised rural carrier examination were implemented during the year. A new battery examination was developed to replace four major entrance examinations and consolidate four examination processes into one.

In a continuing effort to improve the selection process, a new suitability screening curriculum was deployed for employees directly involved in the hiring of temporary and career personnel. In addition, a new contract was awarded to Policy Management Systems Corporation for obtaining preemployment background checks. The new contractor offers network systems to obtain information quickly on criminal history records, employment references, and driving records for those positions requiring driving duties.

i. Program for Employment of People with Disabilities. The vast majority of Postal Service employees with disabilities were appointed through the regular competitive process. Individuals with severe disabilities continue to be referred by the State Department of Vocational Rehabilitation or the Department of Veterans Affairs for consideration of noncompetitive appointments. In fiscal year 1993, the career work force included 37,343 employees with disabilities.

j. Veterans' Employment. The Postal Service remains one of the leading employers of veterans and disabled veterans in the federal government. By the end of fiscal year 1993, the percentage of disabled veterans on the rolls increased from 12.7 percent to 13.3 percent.

k. Employee Assistance Program. The Employee Assistance Program (EAP) underwent a major expansion of services in fiscal year 1993. The Postal Service and the Public Health Service, Division of Federal Occupational Health, Region V in Chicago, Illinois, entered into an interagency agreement to provide professional EAP services to postal employees nationwide. The expanded services will assist employees and their families in dealing with problems adversely affecting job performance and their personal lives. Assistance will be provided to address drug and alcohol abuse, as well as emotional, mental, marital, financial, and legal problems.

The counselors provided by the Public Health Service are all master's level professionals. The Postal Service is staffing each district with one EAP Coordinator, also a master's level professional with expertise in organizational and cultural issues.

The EAP has also been involved in a joint effort with representatives of the American Postal Workers Union and the National Association of Letter Carriers in the development of 10 pilot sites for the program. These pilot sites will be used to determine the best method of providing EAP services to all postal employees.

As a joint venture with the Public Health Service, the Postal Service is developing a national EAP Information System for maintaining operational data about the EAP. This information will be used to determine the quality and effectiveness of the program.

The Postal Service operates an EAP hotline, which receives approximately 265 calls per week. This service has received in excess of 8,000 calls since its inception. The hotline provides postal employees and their immediate families an opportunity to air concerns or difficulties and seek professional assistance.

l. Injury Compensation. In fiscal year 1993, the Postal Service held the growth in total workers' compensation costs to 5.9 percent, compared to the same period last year. This rate was a substantial improvement over the five-year trend line of 14 percent annual growth. Compensation claims rose by 4.5 percent, medical claims by 8.8 percent. There were 1,647 new compensation claimants in fiscal year 1993, as compared with 2,007 new claimants in the previous year. Medical payment claims totaled 33,424 during the year. This year's compensation claim costs averaged \$14,188 — an increase of \$1,010 over fiscal year 1992 average costs. The average medical claim was \$1,685 — an increase of only \$25 over the prior year's average cost.

The Postal Service continued its major cost-control strategy through the efforts of the Workers' Compensation Task Force. The task force assists in the rehabilitation and return of injured employees and identifies ways to reduce injury compensation costs. Task force members visited 26 sites during fiscal year 1993, identifying more than \$21 million of first-year potential savings. From its inception, the task force has visited 38 key sites and identified almost \$40 million of potential annual savings associated with the return of injured employees to work within one year. The lifetime projected savings of those cases identified thus far is \$968.8 million.

Isokinetic testing continued in 1993 to aid in the assessment of injuries associated with musculo skeletal and soft tissue injuries. The testing was previously conducted in five pilot sites and expanded to three additional sites in the Southeast Area during fiscal year 1993.

The Western Area is serving as a pilot site to review medical cases associated with injury compensation claims. In the pilot, a private contractor is making a comprehensive review of large workers' compensation bills from hospitals and medical providers to identify overcharges. A decision to expand the pilot to two additional areas will be made in fiscal year 1994.

The Postal Inspection Service gave priority attention to investigations of fraud, waste, and abuse against the Workers' Compensation program during fiscal year 1993. These investigations resulted in 45 arrests, 37 convictions, and 288 employees being removed from the ranks of the Postal Service. These

investigations uncovered the fraudulent receipt of benefits, obstruction of claims by postal supervisors, forgery and falsification of documents, and fraud by medical providers. As a result of these investigations, Postal Inspectors were responsible for long-term cost avoidance of an estimated \$47.1 million.

3. Compensation and Benefits

a. Pay Comparability

(1) Bargaining Unit Employees Pay and Benefits. In maintaining compensation rates comparable with the rates and types of compensation found in similar jobs in private industry, the Postal Service continues to utilize the principle of "moderate restraint" set forth in past interest arbitration awards. During fiscal year 1993, the average salary, benefits, and premium pay for bargaining unit employees was \$42,711 per work year. This represents a 2.9 percent increase over fiscal year 1992 figures.

(2) Nonbargaining Unit Employees Pay and Benefits. A new pay-for-performance concept was introduced for fiscal year 1993 that emphasizes team performance and recognition. This concept focuses on the Postal Service's success in meeting its three basic corporate goals — customer satisfaction, employee commitment, and revenue income generation. The new compensation procedures were implemented for employees in the top grades of the management pay schedule — Executive/Administrative Schedule (EAS) 20 through 26. Employees in the lower grades (EAS 1-19) were converted from a step schedule to a salary range schedule and placed on a fiscal year evaluation cycle. These changes created the framework to align the Postal Service's performance measurement and reward systems for all management employees. Pay for nonbargaining supervisors, postmasters, and professional and staff employees generally meets or exceeds the standards set forth in the Postal Reorganization Act for private-sector comparability and for adequate and reasonable differential between first-line supervisors and bargaining unit clerks and carriers.

(3) Executive Pay and Benefits. Pay and benefits for Postal Service officers and many key executives fail to meet the private-sector comparability standard due to the salary limit of Executive Schedule I mandated by the Postal Reorganization Act. This limit has created difficulties in recruiting qualified officers and executives. The average salary for Postal Service officers is \$130,000; the average salary for executives is \$83,000.

b. Leave Programs. Postal Service employees are provided sick leave to insure against loss of earnings when ill or disabled. Sick leave is earned at the same rate applied to other federal sector employees. During fiscal year 1993, postal employees used an average of 8.05 days of sick leave per employee. Annual leave, to be used for rest and relaxation, is earned at the same rate applied to the federal sector. However, unlike their federal counterparts, postal employees have access to higher carryover limits and leave-sharing provisions. Postal Service career nonbargaining unit employees can also participate in a leave exchange program. On August 5, 1993, the Postal Service implemented the provisions of the Family Leave and Medical Act of 1993.

c. Health Insurance. During fiscal year 1993, health care contributions totaled \$2.8 billion, or 7.0 percent of the Postal Service's total cost of pay and benefits. This total represents an increase of 5.0 percent from fiscal year 1992. The requirements of the Omnibus Budget Reconciliation Act of 1990 are responsible for much of this increase. Under the act, the Postal Service must fund the annuitant's share of premiums incurred under the Federal Employees Health Benefits (FEHB) Program. This program covers postal annuitants who retired after June 20, 1971, and their survivors.

On June 4, 1993, arbitrator Rolf Valtin issued an award that reduces the Postal Service's level of contribution for employees' health benefits. Starting in 1994, the award covers approximately 500,000 employees represented by the American Postal Workers Union and the National Association of Letter Carriers. The reduction in the contribution formula is to be phased in over a four-year period. This will result in the average Postal Service contribution rate shifting from 90 percent in 1993 to 85 percent in 1997. The arbitration award also provided two pretax benefits: pretax FEHBP employee contributions and flexible spending accounts. Both benefits reduce the financial impact created by the increase in health premium contributions. The new contribution formula and pretax benefits also apply to postal police, nurses, supervisors, postmasters, professional and staff employees, and mail handlers (if the new labor agreement is ratified by the union membership).

d. Life Insurance. Life insurance coverage for Postal Service employees is provided through the Federal Employees Group Life Insurance (FEGLI) Program. The Postal Service assumes the full cost of basic life insurance for all eligible employees.

e. Retirement Systems. There were 691,723 career postal employees at the end of fiscal year 1993. Of this total, 318,645 — or 46 percent — were covered by the Federal Employees Retirement System (FERS). The remaining 373,078 postal employees were covered by the Civil Service Retirement System (CSRS). As of July 31, 1993, 219,554 postal employees under FERS contributed to the Thrift Savings Program (TSP), which provides a minimum agency contribution of 1 percent and matching contributions up to 5 percent. Although there is no agency contribution for CSRS participants, 122,898 postal employees covered by CSRS have opted to make voluntary contributions.

f. Flexible Spending Accounts. In July 1992, the Postal Service implemented a new Flexible Spending Account (FSA) benefit plan for all career nonbargaining employees. Beginning in 1994, eligibility has been expanded to career bargaining unit employees in the APWU, NALC, and the police and nurses unions. The plan allows postal employees to deposit pretax dollars deducted from payroll into an FSA from which they may be reimbursed for eligible health or dependent care expenses. Of the 75,000 nonbargaining unit employees eligible for participation in fiscal year 1993, 4,740 were enrolled in the Health Care FSA, with an average contribution of \$1,051. A total of 882 employees were enrolled in the Dependent Care FSA, with an average contribution of \$2,912. With the expansion of FSAs to major bargaining units, an additional 500,000 postal employees will be eligible for this pretax feature in 1994.

g. National Labor Relations Board Litigation. On November 12, the United States Court of Appeals for the District of Columbia Circuit denied the National Labor Relations Board's application for enforcement and vacated a board order issued in March 1992 in which the board had found that the Postal Service had violated the National Labor Relations Act by changing work hours of certain employees, eliminating Sunday collection of mail, and closing post offices on Christmas Day 1987 and New Year's Day 1988 without bargaining with the American Postal Workers Union. The Postal Service took these actions to reduce its budget and comply with the Omnibus Budget and Reconciliation Act of 1987. The appellate court agreed with the Postal Service's analysis that the parties' collective bargaining agreement, in particular the management rights clause, covered, or authorized, the actions taken by the Postal Service in response to OBRA. This decision reaffirms the broad powers of the management rights clause contained in the collective bargaining agreement.

4. Training and Development

a. General. During fiscal year 1993, the former Training and Development Department was completely restructured. Resident technical training remains based in Norman, Oklahoma. Nontechnical training, renamed Management and Employee Development, is now located in Chicago, Illinois. This site offers a more strategic and central location to the entire postal work force. In addition to maintaining the former field training centers, Midwest, Southern, West Coast, and the William F. Bolger Academy in Potomac, Maryland, a new field training center was added in Windsor, Connecticut, to serve the Northeast and New York Metro areas.

Management and Employee Development focuses on the need to provide training as close to field installations as possible through the use of the five field training centers. Postal training emphasizes the need to transfer the learning process back to the work site. In order to draw on the knowledge, experience, and expertise already available in the organization, field experts are used to develop training material and instruct employees.

There were two training programs developed in fiscal year 1993 to support automation implementation in delivery. The programs were developed in cooperation with the NALC, Labor Relations, and Delivery Management at postal headquarters. One program supported delivery point sequencing and the other supported route evaluations, inspections, and adjustments.

The Technical Training Center in Norman, Oklahoma, also was restructured during fiscal year 1993. This reorganization took the form of self-directed work teams responsible for providing the Postal Service's technical training needs. The center used both distant learning devices, such as satellite training and audio teletraining, and on-site field training to reach more than half of the center's 21,000 students in 1993.

In order to meet equipment deployment schedules, the training center increased training in automation and mechanization. Satellite training was provided to support deployment of new multi-commodity vending machines, and "apprenticeship and certification" on-the-job training was started in the automotive area. In support of local post office training needs, the center identified and recommended alternate training sources.

During 1993, Management and Employee Development served as a primary support function for cultural change in the Postal Service. The revision of supervisory and managerial leadership courses focused on incorporating the desired cultural change into the daily operations of the Postal Service. Employees were also provided behavior-style workshops, labor/management joint training ventures, team building, conflict resolution, and communications skills courses.

Management and Employee Development, in conjunction with private consultants, is developing an action plan format to assist Performance Clusters in improving employee commitment. Training goals will be achieved through the use of designed teamwork activities among Customer Service and Sales and Processing and Distribution, as well as union and management representatives. The format is now being tested, and full deployment in the field is scheduled for fiscal year 1994.

b. Postal Career Executive Service Training. Postal Career Executive Service (PCES) executives have the opportunity to participate in university management programs. During fiscal year 1993, the Postal Service sponsored 15 executives at advanced management programs held throughout the country, including two Sloan Fellows at the Massachusetts Institute of Technology (MIT) and Stanford University.

D. Postal Cost Apportionment and Postal Ratemaking Developments (39 U.S.C. 101 (d))

There were major developments in the court litigation during 1993 arising out of the most recent omnibus rate proceeding, Docket No. R90-1. The issues in contention extended beyond standard disputes about postal rate and classification matters. They raised fundamental questions regarding the actual intent of Congress in establishing an independent Postal Service. These issues also involved the constitutional limits of Congress and the judicial branch to restrain the exercise of executive power by the president and the constitutional limits of the president's power to make recess appointments.

At the core of these issues was the uncertainty surrounding the relationship between the Postal Service and the Department of Justice (DOJ) relative to postal ratemaking litigation. Previously, DOJ consistently allowed the Postal Service to represent itself before the courts in ratemaking matters. In this instance, however, DOJ denied the Postal Service's request for self-representation, and initiated two actions that were clearly contrary to the interests of the Postal Service.

First, DOJ refused to present the Postal Service's position on one of the issues raised in the mailers' appeals of the governors' decision to allow the majority of the Postal Rate Commission's recommendations into effect under protest. The Postal Service agreed with the mailers that the commission failed to observe necessary procedures and the matter needed to be remanded for correction. Although the commission was not a party to the appeals, DOJ decided to defend the commission's position and treat the governors' decision as if it had been an unconditional approval.

Second, DOJ demanded that the Postal Service withdraw the governors' appeal of the commission's Public Automation Rate (PAR) recommendations. The appeal was filed as a result of the governors' decision to allow PAR into effect under protest and seek judicial review. DOJ took the position that it is unconstitutional for one executive branch agency to sue another. If accepted, this position not only would have undermined the action already taken by the governors but also would have nullified one of the governors' statutory options provided specifically by Congress.

The Postal Service filed a motion with the Court of Appeals seeking leave to appear on its own behalf. Filing this motion triggered a chain of events in which the White House became involved in the dispute. Ultimately, the president ordered the Postal Service to submit to DOJ's authority and threatened to remove the governors from office if the Postal Service did not comply.

In response, individual members of the Board of Governors, represented by outside counsel, sought protection from removal by filing a suit in their individual capacities with the District Court. The District Court agreed with the governors that the dispute between the Postal Service and DOJ should be addressed by the Court of Appeals. The District Court enjoined the president from exercising his removal power until the Court of Appeals had the opportunity to consider the matter. DOJ responded by seeking

to have the Court of Appeals stay the District Court's injunction, arguing that not only was it proper for the president to be able to remove the governors under these circumstances but also the lower court had no authority under the Constitution to enjoin the president.

On the day after the District Court entered its injunction, the president named Thomas L. Ashley as a recess appointment to replace Governor Crocker Nevin, whose term had expired on December 8, 1992. Mr. Nevin was serving his holdover year in the absence of a successor. Governor Nevin was one of the plaintiffs covered by the injunction. Mr. Ashley's appointment was questioned by five Senators in a letter to the president.

The Court of Appeals defused many of the broader issues by focusing exclusively on the Postal Service's original motion for self-representation. In an order dated January 15, 1993, the court granted the Postal Service's motion in part and agreed with the Postal Service that Congress did not intend to invest DOJ with unlimited control over postal ratemaking litigation. The court allowed the Postal Service to proceed with the PAR appeal and also allowed it to file a supplemental brief in the mailers' appeals. While the Court of Appeals' order and its subsequent written decision of February 23, 1993, effectively ended the dispute between the Postal Service and DOJ, it did not address the question of the validity of Mr. Ashley's recess appointment, which was still pending before the District Court.

The Court of Appeals next moved to the merits of the rate case appeals. On July 16, the court granted the relief requested by the Postal Service in all respects. The court remanded the matter to the commission for further proceedings because it had found the commission's recommendations were not based on evidence on the record of the rate case.

While the Court of Appeals was considering the merits of the rate case appeals, the District Court was considering the recess appointment issue. The Postal Service, as *amicus curiae* in response to the court's order, submitted three pleadings showing that the attempt to replace Governor Nevin with Mr. Ashley was not a valid exercise of the recess appointment power. First, because Governor Nevin continued to serve pursuant to the holdover provision of the Postal Reorganization Act, there was no vacancy to be filled by a recess appointment. Second, the Senate's pre-inaugural adjournment between January 7 and January 20 did not constitute a recess of the kind intended to create the opportunity for a valid recess appointment. Recess appointments were intended under the Constitution to be used to fill vacant positions between sessions of Congress when the Senate was not available to act on nominations in order to avoid disruption of government functions.

In July 1993, the District Court decided there was no vacancy because Governor Nevin was continuing to serve as a holdover. Therefore, the attempted appointment of Mr. Ashley was void, and Governor Nevin should continue to serve until a successor is nominated and confirmed or until his holdover year expires. Both DOJ and Mr. Ashley have filed challenges to this decision with the Court of Appeals; these appeals are currently pending adjudication.

In another docket, the Postal Rate Commission issued a recommended decision on August 25, 1993, regarding the Postal Service's request for the establishment of a new class of small, prebarcoded, low-cost parcels entered in bulk at Bulk Mail Center facilities. This recommended decision was the culmination of a 10-month proceeding during which the commission heard testimony and argument from the Postal Service and several mailers in support of the proposal. The United Parcel Service and a small number of other mailers opposed aspects of the requested service. The commission declined to hear the case on an expedited yes-or-no basis as requested by the Postal Service.

In its recommended decision, the commission rejected the classification and rates requested by the Postal Service. Instead, the commission recommended certain modest work-sharing discounts for existing parcel post service. The revenue and volume consequences of the commission's recommended discounts were not fully explored during the proceeding. Accordingly, the Postal Service is currently considering a response to the commission's recommended decision.

On November 24, 1992, United Parcel Service (UPS) filed a rate complaint with the commission, alleging that parcel post rates are not covering their costs and must be increased. On December 18, the Postal Service filed its answer, denying the allegations and providing evidence that the most recent data showed parcel post rates were covering costs. On February 1, 1993, the commission ordered that the proceedings be deferred pending release of official Postal Service data for fiscal year 1992. Following that release, UPS renewed its complaint on May 11, 1993. On July 9, the commission ordered UPS to show cause why its complaint should not be dismissed citing the fiscal year 1992 Postal Service data. UPS argued that it was alleging the fiscal year 1993 costs will not be covered. The Postal Service responded on August 16, showing that UPS had not supported its allegations. The matter remains pending before the commission.

In Docket No. RM91-1, the commission is considering changes to its rules of practice and procedure. On March 19, 1993, the commission withdrew its proposal for rules implementing a four-year rate cycle, and solicited the parties' further comments on other general procedural improvements. The commission indicated its intention to initiate a new docket to consider recommendations of the Commission-Postal Service Joint Task Force on Postal Ratemaking to streamline procedures applicable to competitive services. No such docket has yet been initiated. Docket No. RM91-1 proceeded to consider general rule changes regarding matters such as service or documents and electronic filings. A settlement conference was held on September 8. A stipulation and agreement is being prepared for submission to the commission.

In Docket No. RM92-2, the rulemaking initiated at the request of eight second- and third-class mailer associations to evaluate the effect of the Postal Service's automation program on mail-processing costs, the petitioners requested on February 4 that the commission permit formal discovery. On July 6, the commission denied the request but invited the petitioners to submit extensive data requests to which the Postal Service would respond at a commission-sponsored technical conference. The commission proposed the conference as an alternative to the conference that the Postal Service had already planned. On October 6, the Postal Service declined the commission's offer. The Postal Service conducted its planned technical conference on October 26.

E. Important Letter Mail Priority

(39 U.S.C. 101 (e))

Consistent with the requirements of the Postal Reorganization Act, the Postal Service offers dedicated mail classifications and services for the expeditious collection, processing, transportation, and delivery of letter mail. A nationwide processing, distribution, and transportation network devoted to the prompt delivery of letter mail has also been established. These classifications, services, and operations are discussed in Chapter 2.

F. Transportation Policies

(39 U.S.C. 101 (f))

1. General

The Postal Service spent \$3.12 billion in fiscal year 1993 for the contractual transportation of mail. This figure represents a 6.42 percent increase over 1992 transportation expenses. Mail transportation expenses accounted for 6.3 percent of total postal costs in fiscal year 1993.

2. Domestic Transportation

a. Air Transportation. Air transportation costs in fiscal year 1993 totaled \$1.481 billion. The Postal Service contracts with 65 commercial airlines to move more than two billion pounds of domestic mail each year. The airlines make available 56,000 flights daily for the air transportation of mail. To supplement the movement of mail by air, the Postal Service operates its Eagle Hub in Indianapolis, Indiana. The hub operates with 19 aircraft and serves 33 cities directly. The Eagle Hub transports about 90 percent of all Express Mail that moves by air. Additional network transportation is secured for the heavy volumes of Priority Mail during the peak 13-day Christmas holiday period.

b. Rail Transportation. Postal Service expenses for rail transportation were \$219.7 million in fiscal year 1993. This represents a 3.8 percent increase compared with fiscal year 1992. The increase was attributable to expanded use of long-haul service. The Postal Service holds contracts with 12 railroads, which perform service on approximately 1,500 rail segments. A new two-year rail contract was negotiated during fiscal year 1993. Railroads carried approximately 19 percent of the total pounds of mail, the majority of which was third- and fourth-class.

In fiscal year 1993, the Postal Service paid AMTRAK \$49 million for rail transportation services. Expanded services accounted for the 14 percent increase over fiscal year 1992 payments. AMTRAK provides service for the majority of the second-class transportation network.

c. Highway Transportation. The Postal Service expended approximately \$1.222 billion for highway mail transportation in fiscal year 1993, a 5.5 percent increase from fiscal year 1992 totals.

There were 14,251 highway contract routes operating during fiscal year 1993. Roadside receptacles were served by nearly 41 percent of these routes, which also transport mail between postal facilities.

d. Domestic Water Transportation. In fiscal year 1993, the cost of transporting mail to domestic offshore destinations was \$26.37 million, a 13.7 percent increase over fiscal year 1992. During the same period, the Postal Service paid \$21.95 million to U.S. flag carriers for this service.

3. International Transportation

International surface transportation costs were \$11 million in fiscal year 1993, approximately the same amount spent in fiscal year 1992. Consistent with service and cost considerations, U.S. flag carriers are utilized to the greatest extent possible to serve foreign destinations. The Postal Service paid \$2.66 million to U.S. flag carriers for international carrier service in fiscal year 1992.

4. Postal-owned Transportation

The Postal Service maintains a vehicle fleet of 188,979 postal-owned vehicles and 8,376 leased vehicles. While the vast majority of this fleet supports the carrier delivery network, almost 10,000 vehicles are used to haul mail between facilities, airports, and private mailers' plants. The total expense for postal-owned vehicles in fiscal year 1993 was \$559.3 million, a 4.3 percent increase over fiscal year 1992. The Postal Service received more than 19,800 Long Life Vehicles (LLVs) during fiscal year 1993.

The number of miles traveled in fiscal year 1993 increased 3.9 percent because of the expanding delivery network. The Postal Service's overall fuel consumption rose only 3.3 percent due to the increased use of more fuel-efficient vehicles. This factor, in combination with stabilization of labor costs and reductions in parts usage, enabled the Postal Service to experience only a 0.3 percent increase in the operating cost per mile. Vehicle operating statistics are shown in Tables 1 and 2.

Table 1
Vehicle Type/Vehicle Inventory

	FY 1993
1/4-ton	36,195
1/2-ton	121,703
1-ton	1,984
2- and 2 1/2-ton	6,538
5-ton	115
7-ton	1,396
9-ton	1,585
Tractors	1,795
Tractors, spotter	386
Trailers	4,907
Experimental vehicles	68
Service vehicles	3,784
Administrative vehicles	4,618
Law enforcement	2,017
Mobile post offices	137
Miscellaneous vehicles	1,751
Total active (postal-owned)	188,979
Leased vehicles	8,376
Total active vehicles	197,355

Table 2
Postal-owned Vehicles Operating Statistics

	FY 1992	FY 1993	% Change
Number of vehicles	178,925	188,979	+5.6
Miles traveled	920,304,344	956,183,622	+3.9
Miles per vehicle	5,144	5,060	-1.6
Gallons of fuel used	95,568,069	98,750,110	+3.3
Gallons per vehicle	534	523	-2.1
Miles per gallon	9.6	9.7	+1.0
Cost per vehicle	\$ 2,584	\$ 2,706	+4.7
Cost per mile	\$ 0.583	\$ 0.585	+0.3

G. Postal Facilities, Equipment, and Employee Working Conditions

(39 U.S.C. 101 (g))

1. Safety and Health

a. Accident Investigation and Reporting. The prompt and thorough investigation of workplace accidents is a crucial part of the Postal Service's overall accident prevention program. During fiscal year 1993, there were 17,412 lost workday injuries, compared with 16,776 injuries reported in the previous fiscal year. The Postal Service experienced a 2.34 lost workday frequency rate per 200,000 work hours in fiscal year 1993. The fiscal year 1992 rate was 2.28. There were 23,578 motor vehicle accidents during fiscal year 1993, compared with 20,304 reported during the previous fiscal year. The motor vehicle accident rate per million miles driven was 12.86 in fiscal year 1993, compared to the 11.19 rate for the previous year.

b. Initiatives for Accident Prevention. Under an agreement with the Occupational Safety and Health Administration (OSHA), special safety training was provided in 1993 for Postal Service maintenance management and safety personnel. The safety training was conducted at OSHA's Training Institute.

Consistent with Postal Service safety policies, management safety and health committees meet regularly to develop safety and health objectives and track safety improvement. Joint labor/management safety and health committees function throughout the Postal Service in accordance with the provisions of the collective bargaining agreements.

Postal Service safety professionals continued to review concept drawings and specifications for new postal facilities to ensure compliance with OSHA and other safety standards. This process helps identify potential safety and health deficiencies as early as possible during the design phase. Safety and health managers also conducted preoccupancy inspections in completed facilities. All occupied postal facilities are scheduled for inspection annually, and more frequent inspections are conducted at mechanized or automated installations.

In 1993, a new smoking policy went into effect that bans smoking in all buildings or office space owned or leased by the Postal Service. Additional programs were implemented in 1993 in response to environmental regulations that have an impact on employee health. Subjects included asbestos and lead contamination, radon, hazardous materials and waste management, and underground storage tanks.

Another safety and health topic receiving emphasis in 1993 was ergonomics. The Postal Service and American Postal Workers Union Joint Ergonomics Task Force conducted modifications projects in mail sorting operations. The projects are designed to identify and eliminate designs and work practices potentially associated with cumulative trauma disorders. The Postal Service participated in the development of the American National Standards Institute ergonomic standard for the control of cumulative trauma disorders. The proposed standard is currently in the review and comment phase; it is scheduled for final draft in early 1994. During 1993, the Postal Service continued its body mechanics training program designed to educate employees about basic human biomechanics and potential hazards leading to occupational cumulative trauma disorder (CTD). The course stresses appropriate posture,

movement, and equipment adjustment to avoid CTD. Efforts are also under way to obtain ergonomic seating equipment for all keyboarding work. This equipment provides state-of-the-art support and can be easily adjusted.

In 1993, the Postal Service once again participated in the National Safety Council's Safe Driver Awards Program, recognizing more than 100,000 postal employees who drove throughout the year without experiencing a preventable accident. The Million Mile Club Award was also presented throughout the year to Postal Service employees who completed 30 years or one million miles of safe driving performance.

2. Architectural Barriers Compliance Program

During fiscal year 1993, the Postal Service completed 1,987 projects to make postal facilities accessible to persons with disabilities. At the end of the fiscal year, there were 4,294 additional projects under design or construction.

Some 400 postal employees and term contractors attended seminars on updated compliance program policies and procedures. Nearly 11,000 postal facilities remain candidates for accessibility projects. A budget and plan to address these projects are now under development.

3. Environmental Program

In April 1993, Postmaster General Runyon signed a new Policy for Environmental Protection for the United States Postal Service. This policy commits the Postal Service to provide employees and customers with a safe and healthy environment. A corporate Environmental Strategic Plan has been developed and is in the approval process.

During the recent restructuring, the Postal Service established full-time environmental positions at headquarters, area offices, some district offices, and major facilities offices. In addition, managers at plants, vehicle maintenance facilities, and the remaining districts have been assigned environmental responsibilities as collateral duty to support the environmental program.

More than 1,000 Postal Service employees have been trained in various aspects of the environmental program, which includes the legal requirements of the various environmental laws and regulations and how they apply to the Postal Service.

An electronic Environmental Bulletin Board has been established as a means to facilitate communications among postal employees involved in environmental issues. The board contains up-to-date changes in federal and state laws, regulations, and information files on topics, such as recycling of CFCs and specifications for retread tires.

Postal Service recycling programs have been established throughout the country to reduce the volume of disposable waste. Products currently being recycled include office paper, undeliverable bulk business mail, pallets, plastic, aluminum, steel, oil, solvents, antifreeze, batteries, and tires.

The Postal Service has several address management programs designed to improve the quality of mailers' address lists and thereby reduce the volume of undeliverable third-class mail. As a result of these programs, the percentage of undeliverable bulk business mail has dropped 3 percent for an average reduction of 800 million pieces per year. The Postal Service is a member of the Council on Paper Waste Management, sponsored by the Print Communications Industry. This group is composed of 28 trade associations representing all segments of print communications. The Postal Service is also an active member of the American Society for Testing Materials and participates in several interagency committees on recycling and pollution prevention.

The Postal Service operates more than 1,000 Long Life Vehicles (LLVs) utilizing compressed natural gas. A contract will be awarded in fiscal year 1994 to convert an additional 1,400 LLVs to natural gas usage.

The U.S. Postal Service and Sweden's postal administration took the lead in conducting studies on the "Post and the Environment" for the Universal Postal Union. The first international symposium was chaired by the United States in Berne, Switzerland, on October 12, 1993.

The Postal Service initiated an Underground Storage Tank (UST) program in 1988 to bring all USTs into compliance with federal, state, and local environmental laws. In 1993, \$8.5 million in capital funds was committed for replacement and conversion projects. A total of \$7.4 million was spent on tank system testing, repairs, and contamination cleanup projects. A strategy to eliminate tanks where fuel consumption is below targeted levels is in the planning phase to minimize long-term liabilities and costs.

4. Energy Management

During 1993, the Postal Service focused its efforts on developing strategies to meet the requirements of the Energy Policy Act of 1992. The act mandates the Postal Service to achieve a 20 percent reduction in energy consumption by the year 2000. A system designed to track and monitor the largest energy consuming postal facilities was tested in 1993. It will be implemented in 1994. In addition, a facility survey program was developed to identify potential energy savings at all facilities. The software for the program was developed in conjunction with the Department of Energy.

Newly constructed facilities occupied after September 1985 are designed to meet stringent federal requirements. New postal facilities represent some of the most highly automated buildings in the Postal Service, and energy savings were realized through energy-efficient lighting; high-efficiency heating, ventilating, and air conditioning systems; and other active and passive systems designed to provide a cost-effective, energy-efficient facility.

5. Facility Site Acquisition, Design, and Construction

The Postal Service introduced significant changes in its facility program as part of the administrative restructuring begun in 1992. One of the foremost changes has been to accelerate the ongoing effort to standardize facilities. During 1993, a cross-functional Postal Service team identified facility standards used by other organizations with similar building types. This team also analyzed the most effective current postal standards. Based on this study, the Postal Service has developed comprehensive standards for new retail areas, major renovations of existing retail space, and new and renovated administrative offices. These standards will enable postmasters and managers to implement basic postal building standards and simplify standards for new construction projects.

Emphasis has been placed on enhancing the Postal Service's retail image through the pilot Retail Lobby Upgrade program. Nationwide, 50 post office lobbies are being upgraded to present a standard image, eliminate clutter, and install IRT stations, desks and slat walls for information, philatelic products, and other items available for sale.

Other facility program changes included a reduction in field locations, revalidation of new construction projects, and a significant reduction in work hours and administration associated with facility program implementation. Environmental inspections are also incorporated earlier in the facilities-planning and decision-making process.

A comprehensive community relations program was developed in 1993 to improve communications between the Postal Service and communities when the relocation of an existing postal facility is anticipated. Under this program, community leaders are contacted during the developmental stage of a facility project. In this way, local concerns can be identified as early as possible. Provisions are also made for community meetings with all interested customers in an effort to recognize community preferences and reconcile any differences.

A total of 249 postal facilities were affected by natural disasters during fiscal year 1993, including hurricanes Andrew and Iniki and the flooding of the Mississippi River and its tributaries. Temporary quarters, alternate leases, and numerous repairs and alterations projects were accomplished on an emergency basis immediately after these disasters to restore mail delivery to the communities.

6. Real Estate Inventory Realty Management

Total owned facilities	5,937
Total owned interior square feet	163,510,558
Total owned land in square feet	618,884,320
Total leased facilities	27,975
Total leased interior square feet	92,137,796
Annual rent paid to government agencies	\$ 35,380,887
Annual rent paid to non-federal owners	\$ 470,159,633
Annual rent received from GSA	\$ 36,355,000
Annual rent received from non-federal tenants	\$ 34,800,000

7. Procurement

a. Purchasing Consolidation. Plans were developed during 1993 to consolidate all purchasing authority within the Purchasing area. Merging responsibilities previously held in Purchasing, Facilities, and Transportation, the consolidation will ensure consistency and uniformity throughout all areas of Postal Service purchasing. When the consolidation takes effect in fiscal year 1994, the vice president, Purchasing, will have authority over all purchasing policies and methods, including facilities- and transportation-related purchases. In addition, the vice president, Purchasing, will establish qualification standards for contracting officers, training and professional development programs, and oversight programs and methods. Under the consolidation, contracting officers and purchasing specialists will be dedicated full-time to these functions.

b. Process Simplification. Several important procurement policy initiatives specifically aimed at achieving higher efficiency and greater customer satisfaction were finalized in fiscal year 1993. One such initiative raised the simplified purchasing level from \$50,000 to \$100,000. Later in the year, this change was recommended for use throughout the federal government in Vice President Gore's National Performance Review. Simplified purchase procedures reduce the amount of time and paperwork associated with the solicitation and award of contracts for commercially available products and services while meeting traditional commitments to statutory regulations, competition, and other policy requirements. The increase in the purchasing threshold affects more than 1,450 Postal Service contracts.

Also increased in 1993 were "local buying" authorities, which are used by managers and postmasters to purchase one-time operational goods and services from businesses within the local trade area without resorting to the formal contracting process. The new authorities, which range from \$1,000 to \$10,000 depending on the size of the facility, provide local managers with prompt access to required goods and services. To ensure that socioeconomic commitments and policy mandates are fully met, certain commodities are precluded from being purchased through local buying procedures.

c. Professional Development. The Postal Service has one of the federal government's most extensive training programs in purchasing and material management. During fiscal year 1993, 860 Postal Service employees attended 54 purchasing and material management courses. Also, a training course addressing the requirements of the new Standards of Ethical Conduct for Employees of the Executive Branch was developed in fiscal year 1993. During the year, the course was presented to all contracting officers, purchasing specialists, and individuals involved in the purchasing process. More than 1,600 employees will attend the class in fiscal year 1994, and refresher courses will be offered yearly.

d. Quality Assurance. Purchasing employees play a vital role in the Postal Service's corporate automation plan by overseeing the testing and acceptance of automated equipment. In fiscal year 1993, Purchasing employees tested and accepted more than 1,906 pieces of equipment, including delivery bar code sorters, parcel bar code sorters, advanced facer/cancelers, and flat sorting machines. This equipment is valued at \$373 million. Purchasing employees also tested and accepted more than 20,000 Long-Life Vehicles valued at \$272 million.

e. Supplier Diversity Programs. In fiscal year 1993, the Postal Service enhanced its efforts to expand the diversity of its suppliers through the establishment of a partnership between Purchasing and Diversity Development. This partnership, operating through the Vendor Programs, is designed to increase contract opportunities for small, minority-owned, and woman-owned businesses. In addition, headquarters and field purchasing offices established supplier diversity operating plans to promote this socioeconomic program.

To promote supplier diversity, the Postal Service participated in 50 trade fairs and industry conferences throughout the country during fiscal year 1993. Also, a variety of nontraditional communications channels were used to build new supplier networks. For example, representatives of the Vendor Programs met during the year with officials from the Black Business Association, U.S. Hispanic Chamber of Commerce, Congressional Black Caucus, Urban League, National Association of Minority Businesses, National Association of Minority Contractors, Asian American Resource Development and Employment Center, and the Minority Business Legal Defense and Education Fund. To expand information-sharing opportunities with other federal agencies, the Postal Service established partnerships with representatives of the Small Business Administration and the Minority Business Development Agency. Program

officials also visited several public and private organizations, such as General Motors and the Tennessee Valley Authority, to learn more about their supplier diversity programs.

As part of the Postal Service's outreach program, a network of 80 Socioeconomic Business Program Coordinators and Diversity Development Specialists has been established throughout the organization. The coordinators serve as advocates promoting the use of small, minority-, and woman-owned businesses.

The Postal Service's commitment to supplier diversity was enhanced in 1993 through advertising with national magazines targeting minority suppliers. During the fiscal year, a socioeconomic business program management team was formed to manage and coordinate various supplier diversity initiatives. Also, Diversity Development and Purchasing officials began a major revision of the *Let's Do Business* guide to incorporate the new supplier diversity program.

During fiscal year 1993, more than \$1.9 billion, representing 84 percent of all contractual transactions, was placed with small businesses. At the same time, more than \$153 million, representing 9.1 percent of contractual transactions, was placed with minority businesses and \$246 million, representing 10.3 percent of all contractual transactions, was placed with women entrepreneurs.

Chapter 2

Postal Operations

A. Public Perceptions, Customer Outreach, and Liaison

1. Customer Feedback Analysis

The Consumer Service Card Program provides customers an opportunity to register complaints or compliments about services, policies, and personnel. It also provides the Postal Service with the ability to identify problem areas and significant trends.

The Postal Service received 483,873 Consumer Service Cards during fiscal year 1993, a 2 percent decrease from the previous year. Of these, 86 percent were complaints, 7 percent were compliments, 4 percent were information requests, and 3 percent were suggestions from customers.

The greatest number of recorded complaints concerned delayed mail. First-Class Mail and newspapers/magazines are the primary sources of these complaints. Delayed mail complaints are linked to misdelivery and non-receipt complaints. Taken together, these three complaint categories decreased by 9 percent in comparison with last year's figures.

2. Customer Outreach and Mailer Liaison

a. Consumer Programs. Several consumer programs have been enhanced to provide better access to information about the Postal Service and its products. Customer education improved through further expansion of Postal Answer Line (PAL), an automated telephone information service designed to provide recorded responses to common customer inquiries. PAL provides customers access to postal information 24 hours a day, seven days a week, at considerable savings when compared with having postal employees handle incoming calls.

Installation of PAL began in September 1988. By the end of fiscal year 1993, 81 sites were operational. Each year, PAL handles an average of 3.9 million calls, for an annual cost avoidance of \$4.9 million. Since its inception, PAL cost avoidance has been \$19 million.

In the service improvement area, the number of Customer Advisory Councils (CACs) continues to grow. These councils allow local postal officials to listen to their customers and hear their concerns. During fiscal year 1993, the number of CACs grew from 338 to 1,262 active councils.

In another service improvement initiative, the Postal Service began testing a toll-free number for customer complaints in March 1993. Initially tested in two districts, the Customer Care Center toll-free number is expanding into additional districts in early fiscal year 1994.

The Customer Care Center toll-free number allows customers in the test areas to talk directly with a customer service representative (CSR). The CSR will bring the complaint to the attention of the highest level of postal management necessary — in some cases Postal Service headquarters — to resolve the customer's problem. This effort is one more way the Postal Service is listening to its customers.

Vice President Al Gore's National Performance Review includes a Postal Service initiative to post geographic service targets for overnight, two-, and three-day delivery of First-Class Mail. Plans are being finalized to implement this initiative in the 96 cities measured through the External First-Class Measurement System (EXFC), beginning with Nashville, Tennessee.

b. Competitive Services Task Force. With the formation in 1992 of the Competitive Services Task Force, 61 private industry executives and 19 postal managers began to discuss what the Postal Service could do to serve customers more effectively and to be more competitive in today's marketplace.

What came out of the task force meetings were 183 recommendations that reflected five major recurring themes. They are to: (1) simplify regulations, both in language and content; (2) improve delivery performance, service standards, and measurement systems; (3) commit to cost control for rates stability; (4) offer discounts and other pricing strategies that are more customer-oriented; and (5) become more customer-oriented and easier to do business with.

Of the 183 recommendations, 155 (85 percent) have been evaluated and accepted — either fully or partially — and more than half have been implemented.

Topping the task force's list were recommendations to revise the *Domestic Mail Manual* and simplify regulations, restructure the organization to be more customer-focused, deploy more external measurement systems, introduce more contemporary postage payments systems, and promote the value of advertising mail to advertisers. Each of these proposals has been implemented.

c. Customer Outreach. The Postal Service continued its strong cooperation with customer groups during 1993. The Mailers Technical Advisory Committee (MTAC), which serves as a liaison between the industry and postal management, continued to play a major role in areas designed to increase customer service.

The Postal Service held two National Postal Forums in 1993 that attracted more than 10,000 customers and exhibitors. Forums are among the premiere trade shows in the mailing industry and offer the most up-to-date mailing equipment and advanced mailing seminars and conferences in the country.

Postal Customer Councils (PCCs), composed of 176,000 members in 314 councils, continue to identify local customer needs and develop solutions to mailer-related problems.

To manage national accounts to increase postal revenue and pursue new business opportunities, Business Relationship Agreements were signed with some of the Postal Service's largest and most complex customers to retain their current business and grow new business.

An on-site Account Manager was assigned to major customers to further improve service and provide the products that meet their needs. Training was developed to teach new account managers how to work with major customers to provide them the best possible service at the lowest possible cost.

The Sales Partner program was developed in order to expand customer reach through joint marketing and sales activities to increase mail volume and mutual revenues, and improve customer service.

Sales representatives from business partners, including the printing, advertising, and mail equipment manufacturing industries, are engaged in educating customers on quality mail preparation and selling postal services such as Priority Mail, parcel post, and advertising mail.

A major partnership was developed with marketing executives from the private sector in the form of a Marketing Advisory Board. Among other duties, it recommends programs that establish better working relationships with senders, receivers, and companies that are important in supporting mailing functions, such as list brokers and the public relations, direct mail, catalog, nonprofit, publishing, printing, finance, and retail industries.

The contribution of 95 Postal Business Centers continued to expand with ever-increasing awareness of small- to medium-volume customer needs. Total revenue contribution from this base of 7.5 million mailers is estimated at \$17 billion.

Business Centers provide professional support programs that cover a broad range of critical information customers can access by attending group seminars or individual consultations. The steps to taking discounts, preparing mail, mailing supplies, and entering mail continue to be provided through a variety of analytic processes, mail-flow planning, and informative publications.

Last year, the Postal Service, through partnership activity with the private sector, conducted a three-month pilot test to gauge consumer acceptance of an innovative new product, the *Mover's Guide*.

The *Mover's Guide* is a consumer booklet that contains Change of Address Order forms and moving-related information to assist relocating customers. More than 1.5 million copies of the *Mover's Guide* were shipped directly to postal units within 10 selected test districts, one in each postal area.

The results of the test were quite favorable. Overall response from customers, employees, and participating advertisers was overwhelmingly positive. In 1994, the Postal Service is expanding the test effort to the national level.

The Postal Service increased efforts to assist mailers in meeting changing automation requirements. Through a series of meetings with members of the mailing industry, including hardware and software manufacturers, industry representatives received briefings 6 to 12 months in advance of planned changes to Postal Service products and certification programs. To improve customer satisfaction and accommodate the wishes of vendors to serve their customers better, the transition to a new product format was delayed to allow full systems testing by the users of those products. Thirty software vendors and 151 customers participated in the Coding Accuracy Support System (CASS) certification testing, as did 11 manufacturers of multiline optical character readers and 560 machine owners.

The Postal Service relationship with the Greeting Card Association flourished. Through the leadership of its trade association, the greeting card industry agreed to phase out the number of dark-colored envelopes on retail shelves and replace them with colors that are automation compatible. Minimal phase-out began in February and will continue through the 1994 Christmas holiday season.

In support of the customer automation outreach efforts, the Postal Service published technical guides entitled *Designing Flat Mail* (Pub. 63) and *Designing Reply Mail* (Pub. 353). These new publications provide customers with the information necessary to prepare a quality mailpiece for automated processing.

d. Market Research. During fiscal year 1993, the Postal Service completed a number of market research studies. These studies reviewed customer reaction to stamp-collecting programs, postal rate strategies, service improvements, and new services for publishers and advertisers.

e. Customer Service/Support for Bulk Mail Entry

(1) Publisher Electronic Payment System. The Publisher Electronic Payment System (PEPS) is a re-engineered initiative under development with the publishing and printing industries designed to streamline the financial transaction processes used between mailers of second-class publications and the Postal Service. The PEPS "Proof-of-Concept" prototype uses multi-enterprise computing techniques to determine postage without use of manual processes, such as weighing, to determine piece weights. In addition, the PEPS design incorporates use of electronic data interchange and electronic funds transfer technologies to facilitate payment. During 1993, design specifications for a PEPS prototype were developed in partnership with industry participants. During 1994, functional prototypes at two locations will be developed to test the PEPS concept and design.

(2) Voice Response Technology for Trust Fund Balances. In fiscal year 1993, voice response hardware was procured and software applications written to provide business customers who maintain advance deposit accounts for their mailings to use touch-tone telephones to obtain their current account balances. All districts will be able to offer this service by the end of fiscal year 1994.

(3) Centralized Trust Account System. Development work began to provide business mailers who currently maintain advance trust accounts in multiple post offices the option to maintain a centralized "national" trust account for payment of bulk mailings nationwide. A pilot test of this option will begin in January, with implementation scheduled by the end of fiscal year 1994.

(4) Expansion of Automated Systems at Bulk Mail Entry Units. More post offices received automated systems to assist in their processing of mailing statement transactions and their maintenance of customer trust accounts. This expansion will continue in fiscal year 1994 to incorporate approximately 200 additional entry points.

3. Corporate Relations

Fiscal year 1993 was an active year for Corporate Relations, in which communications with employees, customers, and the media played increasingly important roles. Corporate Relations carried word of the Postal Service's refinements to its corporate structure, major developments, and the impact of competition on the Postal Service.

Satellite broadcasts of interactive briefings with executives and the Postmaster General's "town hall" meetings were carried to some 200 field offices nationwide via the Postal Satellite Training Network.

Business mailers also were kept abreast of changes in postal restructuring, rate changes, and regulations through the monthly newsletter *Memo to Mailers*. Other current events and postal issues were presented through *FOCUS*, the monthly employee magazine.

B. Mail Volume and Service Performance

1. Mail Volume

Mail volume increased 4.8 billion pieces, or 2.9 percent, to 171 billion pieces in fiscal year 1993. On a percentage basis, Priority Mail was by far the fastest growing classification. In terms of actual volume growth, First-Class Mail accounted for 1.4 billion pieces and third-class mail grew by 3.2 billion pieces. This combined total of 4.6 billion pieces accounted for 97 percent of the year's growth in mail volume.

First-Class Mail grew 1.5 percent. The average weight of First-Class Mail pieces grew by 3.5 percent. The end result of this weight growth was more pieces paying the charges for additional ounces, thus a revenue growth of 1.9 percent, which outstripped volume growth.

Table 3
Historical and Projected Mail Volume by Fiscal Year
(Millions of Pieces)

	1992	1993	Projected 1994	Projected 1995
First-Class, total	90,781.0	92,169.4	94,478.3	96,741.1
% change	0.5	1.5	2.5	2.4
Presort letters & cards	32,701.4	34,051.5	35,988.1	37,478.8
% change	5.9	4.1	5.7	4.1
Priority Mail	584.4	664.4	735.9	793.4
% change	10.2	13.7	10.8	7.8
Express Mail	53.2	52.4	53.1	54.1
% change	(8.3)	(1.5)	1.4	2.0
Mailgrams	7.5	7.2	5.7	4.6
% change	(37.6)	(3.7)	(20.1)	(19.8)
Second-class, total	10,318.6	10,306.1	10,374.9	10,360.9
% change	(0.1)	(0.1)	0.7	(0.1)
Nonprofit	2,421.2	2,296.3	2,251.5	2,190.9
% change	11.0	(5.2)	(1.9)	(2.7)
Third-class, total	62,547.2	65,773.2	68,780.7	71,400.3
% change	0.0	5.2	4.6	3.8
Carrier-route presort (regular rate)	26,138.0	27,803.9	29,329.4	30,474.3
% change	(4.3)	6.4	5.5	3.9
Nonprofit	11,999.3	11,957.7	12,178.7	12,512.8
% change	0.4	(0.3)	1.8	2.7
Fourth-class, total	764.5	743.8	772.4	793.7
% change	9.9	(2.7)	3.8	2.7
Parcel post	165.4	186.8	201.8	207.7
% change	19.4	13.0	8.0	2.9
Bound printed matter	391.8	353.6	355.9	361.9
% change	7.8	(9.8)	0.7	1.7
Special rate	165.2	164.8	175.2	183.9
% change	7.8	(0.2)	6.4	4.9
Library rate	42.1	38.7	39.5	40.2
% change	4.7	(8.1)	2.2	1.6
USPS mail	551.4	543.7	548.6	551.3
% change	(10.0)	(1.4)	0.9	0.5

In fiscal year 1993, Priority Mail accounted for more than 5 percent of Postal Service revenue from mail services. Priority Mail volume increased 13.7 percent to 664 million pieces.

Domestic Express Mail volume decreased 1.5 percent to 52 million pieces in fiscal year 1993. Revenue decreased 1.9 percent to \$627 million in fiscal year 1993.

Continuing the stagnation of the past eight years, second-class mail volume remained virtually unchanged at 10.3 billion pieces — a decrease of 0.1 percent over last year. Second-class continues to account for slightly more than 6 percent of total mail volume. Second-class revenue declined slightly from \$1.75 billion to \$1.74 billion. Within second-class mail subclasses, regular rate and classroom publications increased, while nonprofit and within-county rate publications declined.

Total third-class mail volume grew 5.2 percent. A 6.5 percent volume increase in third-class regular rate mail accounted for virtually all the growth in third-class mail. Third-class nonprofit mail volume remained essentially unchanged at 12 billion pieces for the fifth consecutive year. Continuing recent patterns, revenue growth of 3.4 percent fell below volume growth as mailers continued to take advantage of various mail-preparation discounts.

Fourth-class mail showed a 2.7 percent decline in volume, as the largest classification — bound printed matter — experienced a 9.8 percent drop from last year. Parcel post recorded a 13 percent increase. Volume increases in the higher-priced parcel post made up for much of the decrease in bound printed matter, so revenue for the entire class remained at approximately \$1.18 billion.

Total prebarcoded First- and third-class letter mail, including discounted and reply mail, amounted to 30.4 billion pieces, representing 26 percent of total letter mail volume. Total First-, second-, and third-class prebarcoded flat mail amounted to 4.6 billion pieces, representing 15 percent of total flat volume.

2. Service Performance Measurement

First-Class Mail service performance results are measured through the External First-Class Measurement System (EXFC). This system measures service performance from the time mail is entered into the system at a collection box or office building mail chute until the time it is received in the home or small business. The EXFC Measurement System, managed by the accounting firm of Price Waterhouse, provides quarterly estimates of destinating First-Class Mail service performance for 96 cities from their overnight, two-day, and three-day delivery commitment areas. (The number of cities in EXFC increased in fiscal year 1993 from 86 to 96 to better reflect the reorganized Postal Service field structure.)

A second independent measurement system, the Customer Satisfaction Index (CSI), provides the Postal Service with an ongoing, external measurement in which residential customers assess postal performance over a broad range of service attributes, including window and lobby retail services, mail delivery, accessibility, and Postal Service response to customer complaints. The CSI places the Postal Service report card in the hands of its customers.

The Business Customer Satisfaction Index (BCSI) is another system parallel to the Customer Satisfaction Index (CSI). While the CSI measures customer satisfaction with residential customers, the BCSI will measure the satisfaction level of business customers. The Postal Service signed a contract with the Gallup Organization in April 1993 to operate the BCSI process. After appropriate developmental work and a successful conclusion of the pilot test, the BCSI is scheduled to roll out in Quarter III of fiscal year 1994.

In 1993, the Postal Service launched a high-quality, low-cost electronic feedback method for mailers of third-class carrier route flats. The Delivery Activity Report System (DARS) enables the Postal Service to monitor the delivery of mailings from participating mailers. Once DARS has been notified by the customer, delivery units are alerted to the desired delivery dates for the specific mailing. DARS provides mailers information regarding how successfully the Postal Service delivered within the requested time frame. The DARS had 50 participating mailers who received information from 4,000 delivery units covering 7,000 ZIP codes.

The External Third-Class (EX3C) Mail Measurement System developed by the Postal Service in conjunction with third-class mail industry representatives uses an independent vendor to measure delivery information from mail deposit to household. The EX3C contract was awarded to Price Waterhouse in April 1993. System development and pilot testing were successfully completed during the year. EX3C is now fully operational.

The External Second-Class (EX2C) Mail Measurement System developed by the Postal Service in conjunction with second-class mail industry representatives uses an independent vendor to measure delivery information from mail deposit to household. Price Waterhouse was awarded the mail measurement contract in September 1993. The pilot test for EX2C started in December 1993.

Priority Mail consists of First-Class Mail weighing more than 11 ounces and, at the option of the mailer, weighing 11 or fewer ounces. When determining service performance for Priority, only identified Priority Mail is measured. Identified Priority Mail consists only of those mailpieces that use a Priority envelope, carton, tape, or address label.

For fiscal year 1993, two-day on-time performance for identified Priority Mail was 83.7 percent, which represents a one-point improvement over last year. Of this total, 23.5 percent was available for delivery within one day.

Although Priority Mail is now advertised as an alternative for overnight delivery, the Priority Mail network does in fact contain both one- and two-day service commitments. For fiscal year 1993, service performance for identified Priority Mail by service commitment was 86.5 percent for overnight and 81.4 percent for two-day.

For fiscal year 1993, Express Mail A.M. on-time service performance was 94.6 percent, while P.M. on-time service performance was 92.8 percent. Two-day on-time service performance was 94.6 percent, and total network on-time performance was 93.9 percent.

3. Programs and Trends

The first comprehensive Surface Parcel Business Plan was developed in 1993 and provides the strategic direction for USPS surface parcels.

Increasing emphasis is being placed upon service improvement and cost containment. One noteworthy effort supporting these strategies includes the Package Bar Code Sorting (PBCS) system which is fully operational in 20 of the 21 bulk mail centers. The New Jersey Bulk Mail Center (BMC) will be fully operational by March 1994. The PBCS system uses both customer- and USPS-applied bar codes to automate parcel sortation. PBCS has improved service by increasing productivity and reducing sorting errors.

The Postal Service also expanded its working relationship with Roadway Package Systems (RPS) to provide delivery services in 25 sites where RPS does not have a delivery presence. Since the program began, the Postal Service has delivered 152,000 parcels and Priority Mail packages for RPS, accounting for some \$750,000 in new revenue.

Fiscal year 1993 also saw the introduction of a new Drop & Pick Service to allow customers to drop off trailer loads of parcels at bulk mail centers and leave them for unloading at later, prearranged times. Operational tests began in November 1992, and the program has been well received by customers.

4. International Mail

a. Volume. In fiscal year 1993, outbound international mail of all types totaled 872 million pieces and generated \$1.37 billion in revenue. Revenue increased from the previous year by 7.7 percent, while volume increased 11.1 percent. International mail revenue is primarily derived from airmail, surface mail, Express Mail International Service (EMS), International Surface Airlift (ISAL), International Priority Airmail (IPA), and revenues received from foreign postal transactions, such as terminal dues and fees.

Airmail constituted 82 percent of the international mail volume, exclusive of IPA and ISAL volumes, and produced \$760.7 million, or 56 percent of the total international revenue of \$1.37 billion.

International surface mail comprised approximately 14 percent of total international mail volume and generated \$204 million in revenue. Although EMS, ISAL, and IPA together represented only 12 percent of total international revenue in 1993, these newer services continued to grow rapidly.

EMS revenues totaled \$89.4 million in 1993, while 1992 revenues totaled \$80.8 million. IPA revenues decreased from \$22.9 million in 1992 to \$22.6 million in 1993. ISAL revenues increased 8.1 percent in 1993 to more than \$53 million. The Postal Service will continue to implement product enhancements and new sales initiatives to increase revenue.

b. Service Performance. In April 1993, the International Post Corporation (IPC), a cooperative commercial effort of 21 international postal administrations, awarded a contract to Price Waterhouse to develop and administer an international quality of service performance measurement system. The United States, as an IPC member, will participate and measure service for international letter-class mail to major international cities. The project will cover 380 country-to-country mail streams representing two-thirds of worldwide international mail. Its aim is to improve the quality of service to the customer by achieving shorter and more consistent delivery times.

c. Express Mail International Services. Express Mail International Service (EMS) is the fastest delivery of postal items by physical means that can be used to send documents and packages to more than 200 destinations worldwide. During fiscal year 1993, Belize, Bhutan, the Czech Republic, and Western Samoa were added to the network. Volume grew to 4.7 million items in fiscal year 1993, an increase of 326,000 pieces over fiscal year 1992. Revenue increased 10.1 percent to \$89.9 million.

d. INTELPOST. INTELPOST is an expedited international mail service that provides customers with same-day and next-day delivery of facsimile documents. The INTELPOST network currently consists of 48 countries, with Pakistan being the most recent addition.

e. Terminal Dues. Terminal dues are the payments made between national postal administrations to cover the costs of handling and delivering international letter mail, printed matter, and small parcels. Rates are established by the Universal Postal Union (UPU) and through bilateral agreements between individual nations. The Postal Service participated in UPU, bilateral, and other terminal dues agreements.

f. International Postal Agreements, Conferences, and Cooperation. In May 1993, the Postal Service chaired the Executive Council (EC), the administrative body of the Universal Postal Union (UPU), which convened at the headquarters of the UPU in Berne, Switzerland. Work continued on EC programs to prepare for the 21st UPU Congress, which will take place in Seoul, Korea, in August 1994; restructure the UPU to confront the challenges posed by the growing competition in the communications marketplace; and design more accurate and equitable terminal dues systems.

g. International Technical Cooperation. During 1993, the Postal Service continued its practice of sending technically qualified postal managers to the postal administrations of developing countries that requested on-site consultation services. Under these cooperative arrangements, Postal Service representatives participated in consultancy assignments that ranged from two to four weeks in duration. These projects generally receive financial and administrative support from the Universal Postal Union (UPU), the United Nations Development Program (UNDP), and the Postal Union of the Americas, Spain, and Portugal (PUASP).

In addition, the Postal Service, in conjunction with the PUASP, UPU, and UNDP, pursued a project to increase involvement in postal development by multilateral investors such as the World Bank and the Inter-American Development Bank.

h. International Business Reply Service. International Business Reply Service (IBRS) is a recently introduced service that allows mailers to obtain a permit to insert business reply cards or letters for the return of their responses at no cost to the customer. The number of participating foreign postal administrations has grown to 34 with the addition in fiscal year 1993 of the Netherlands, Brazil, Egypt, Bermuda, Fiji, and Kiribati.

C. Productivity and Performance Measurement

The Postal Service uses a productivity measurement that takes into account the effects of all the factors of production, not just labor. The measurement, Total Factor Productivity (TFP), includes factors such as the use of mechanized and automated equipment, growth in the delivery network, facilities development, and presorted/prebarcoded mail volumes. A comparable measure in the private sector is the Multifactor Productivity (MFP) for the private nonfarm sector compiled by the Bureau of Labor Statistics.

Although the Postal Service fell short of its TFP goal of 4.5 percent for 1993, the 3.8 percent improvement represents the best achievement in 20 years. There now have been six straight quarters of positive TFP growth, and — with the exception of Quarter IV — results of each quarter have increased 4 percent or more since Quarter IV of fiscal year 1992.

D. Mail Distribution

1. Automation Program

a. General. The Postal Service's Strategic Plan for Automation is the cornerstone to achieving quality mail service at reduced costs. The plan sets specific targets for automating the processing of mail. Automated mail processing requires the use of bar codes in the address of the mailpiece or in the lower right portion of the mailpiece. The strategy for letter mail automation is centered around the 40-40-20 concept. In this plan, 40 percent of barcoded letter mail will be barcoded by customers, with another 40 percent barcoded using Multiline Optical Character Readers (MLOCRs), and the remaining 20 percent barcoded by the Remote Bar Coding System (RBCS).

Once letters are barcoded, the Mail Processing Bar Code Sorter (MPBCS) and the Delivery Bar Code Sorter (DBCS) perform subsequent sortation of the mail. The ultimate end of this processing strategy is the automated delivery point sequencing of an individual carrier's mail, allowing the mail to go directly from the automation equipment to the carrier for delivery to postal customers.

The Postal Service uses MLOCRs to locate and read the address on each mailpiece and then spray a bar code representation of the destination delivery point bar code. Mail prebarcoded by postal customers bypasses the MLOCR and other sorting operations for direct MPBCS or DBCS processing.

In some cases, where the address cannot be read by the MLOCRs, the Remote Bar Coding System will forward an image of the mailpiece to a Remote Encoding Site. Operators at the Remote Encoding

Site view the mailpiece image and key in the necessary address information from the mailpiece image to obtain the delivery point bar code. Once this process is completed, the mail is fed into a modified Mail Processing Bar Code Sorter equipped with an ink-jet printer and the proper bar code is applied.

Once the correct bar code is applied, MPBCSs and DBCSs use a Wide Area Bar Code Reader (WABCR) to scan and read the bar code. In general, MPBCSs are used to sort barcoded mail to an individual post office or carrier route. The DBCSs are designed to facilitate delivery point sequencing of barcoded letters for a carrier route.

In March of 1993, the Postal Service implemented the Delivery Point Sequencing program. At that time, all postal automation equipment was retrofitted to sort mail containing a delivery point bar code. The delivery point bar code was developed by the Postal Service to uniquely identify each of the 115 million delivery points in the United States. The delivery point bar code is formed by adding 10 bars to an existing ZIP+4 bar code. The 10 bars represent two additional numbers (normally the last two numbers of the street address, post office box, rural box number, etc.). These additional digits allow the Delivery Bar Code Sorter to sort mail to the carrier in walk sequence, thus reducing the time now used to sort mail in the office.

The Phase I deployment of Delivery Bar Code Sorters was completed in late 1992. This deployment consisted of 1,228 machines with 100 stackers. To accommodate the Delivery Point Sequencing program implementation, additional stackers were procured. This upgrade increased the base machine to 140 stackers with a maximum of 220 stackers.

In conjunction with the Phase I upgrade, the Phase II Delivery Bar Code Sorter deployment was initiated, which consists of 1,144 additional machines. Completion of Phase II deployment is scheduled for late 1994.

To separate and speed the flow of mail that can be processed on the automated processing equipment, the Advanced Facer/Canceler System (AFCS) achieves hourly throughputs in excess of 30,000 pieces, compared with hourly throughputs of 17,500 pieces per hour for conventional facer/canceler systems. The AFCS also separates letter mail by address type (script, barcoded, and machine imprinted) in support of the automation effort. During fiscal year 1993, 313 AFCS machines were deployed.

An input subsystem modification to the AFCS was successfully tested in Tampa, Florida, in 1992. This modification provides the AFCS with image lifting capability needed to support the Remote Bar Coding System. After refinement in 1993, the modifications are scheduled to begin in early 1995.

b. Remote Bar Coding System. The Remote Bar Coding System (RBCS) provides the Postal Service a means to apply nine-digit and delivery point sequence bar codes to letter mail that cannot be processed by Optical Character Readers (OCRs). Modifications are made to the OCRs so images of envelopes that cannot be processed are captured and stored electronically. These images are then transmitted to operators at video display terminals who process the address information on the image of the envelope. The results of this processing are bar codes that are sent electronically to a modified bar code sorter. There, the bar code is applied to the affected mailpiece, keeping it in the automated mail stream. Another portion of RBCS is Remote Computer Reading (RCR). Currently under development, RCR will process all images electronically before they are sent to the image processing subsystem. Conservative estimates are that at least 25 percent of the images will receive a bar code, thus reducing the requirements for the more costly keying operation.

In May 1993, an arbitration decision was handed down that the Postal Service must first offer the keying jobs for RBCS to its employees prior to contracting out such work. On November 2, 1993, the Postal Service and the American Postal Workers Union signed a memorandum of understanding that designates the RBCS keying and maintenance jobs as postal positions. The 27 existing RBCS sites, currently contracted out, will be converted to postal operations at the earliest possible date, but in no case later than December 31, 1996. All future RBCS sites will be staffed by postal employees with a ratio of 30 percent of the work hours being performed by postal career employees and the remaining 70 percent through transitional employee work hours. The Postal Service will deploy an additional 22 RBCSs in 1994.

c. Flat Mail Automation. Another key goal of the Postal Service is the automated processing of flat mail. Flat mail makes up approximately 30 percent of the total mail volume. The goal is to have all flat mail that is both machineable and not carrier-route presorted barcoded by customers by 1995.

The flat mail automation equipment efforts target modifications to existing flat sorting machines (FSM). The first step in these efforts was accomplished in November 1992 with the completed deployment of Flat Mail Bar Code Readers (FMBCRs). This was a modification to the existing flat mail sorting machines. The FMBCR system is capable of reading a bar code applied in virtually any location and orientation on the face of a flat mailpiece. Field deployment of the FMBCR system retrofit kits was completed in 1993.

The second step was completed during the summer of 1993. A high-speed flats feeder (HSFF) was tested on the existing flat sorting machines. The results are being evaluated to determine the role of the HSFF in flat automated processing.

The Postal Service also began to develop mechanized flat mail computer forwarding systems. This system takes operator input, prints a forwarding label that contains the human readable delivery information and a POSTNET bar code, automatically applies the label, and sorts the flat to the proper destination. The system will be field-tested and evaluated in 1994.

Forwarded flat mail requires having both the mailer-applied address and the forwarding address visible simultaneously. To avoid bar code reader confusion, the postal applied POSTNET bar code has extra bars so the reader knows that when two bars are present, it is to read and interpret the bar code with the extra bars. The capability to distinguish between a customer-applied bar code and a bar code that was applied by the postal forwarding operation has been developed and will be deployed concurrently as a bar code reader modification kit with the mechanized flat mail forwarding equipment.

d. Parcel Automation. To facilitate the sorting of packages, the deployment of the Postal Service-designed Package Bar Code Sorting (PBCS) system will be completed in 1994. The system not only processes prebarcoded parcels but also includes a device to print and apply barcoded labels to non-prebarcoded pieces to ensure all packages entered into the bulk mail network have a barcoded ZIP Code. Under this concept, all subsequent downstream handlings can be sorted using the barcoded ZIP Code.

2. Bulk Handling Improvements

To improve the efficiency of handling and processing bulk mail, the Postal Service has developed the Integrated Mail Handling System (IMHS). The objective of the IMHS is to streamline and reduce mail handlings, minimize costs, and improve service. Anticipated improvements range from enhanced customer participation through better mail preparation and packaging, to refined mail processing, transportation, and delivery. In developing a comprehensive bulk mail handling system, emphasis is placed on using trays for mail rather than sacks, using palletized loads to support the rapid loading and unloading of trucks, and cross-dock mail transfer methods. The Board of Governors approved funding for the IMHS project in fiscal year 1993, with deployment of associated IMHS equipment to begin in fiscal year 1994.

3. Mechanization

In September 1993, a contract option was exercised to purchase an additional 23 Small Parcel and Bundle Sorter (SPBS) systems beginning in April 1994. This is an extension of the contract approved in 1992. The SPBS mechanizes one of the most labor-intensive operations remaining in the Postal Service.

Another labor-intensive operation receiving mechanization equipment is the rough culling of collection mail to separate this mail into its proper mail stream (letters, flats, or non-machineable pieces). In fiscal year 1993, 52 Dual Pass Rough Cull Systems (DPRCS) were deployed to mechanically separate mail into its respective mail stream. The DPRCS can process in excess of 125,000 pieces per hour and achieve a reduction in staffing requirements as well as in operating hours in preparing raw collection mail for automated and mechanized mail processing equipment.

4. Address Management

a. Forwarding. The Postal Service uses the Computerized Forwarding System II (CFS II) to forward mail for postal customers who have moved. CFS II sites are located in 212 postal facilities nationwide. Each CFS II system consists of a centralized computer, mechanized terminals for processing letters, and non-mechanized terminals for processing flats and magazines. During fiscal year 1993, 2.3 billion pieces of undeliverable-as-addressed mail were forwarded for postal customers. There were 41 million change-of-address orders entered into the computer database.

b. Address Quality Improvement. Improving address quality reduces the amount of undeliverable-as-addressed mail and improves the effectiveness of automated mail processing operations. Products and services are made available to mailers for improving and promoting worksharing efforts. Mailers use these products and services to access five-digit ZIP and ZIP+4 codes, carrier route identifications, city-state designations, and street level address information. This information, which is available on computer tape, microfiche, and hard copy, can be accessed through the following systems:

(1) CD-ROM ZIP+4 Carrier Route Retrieval System. Enhanced CD-ROM (compact disk) microcomputer-based address information systems have been deployed in more than 350 postal facilities nationwide to assist plant load and bulk mailers in correcting presort errors and other address quality defects. These systems detect errors and provide correct information for erroneous bar codes, ZIP+4 codes, and carrier route identifiers.

(2) National Change of Address. The National Change of Address (NCOA) process provides business mailers with change-of-address information for customers on their mailing lists. This process not only reduces the amount of undeliverable mail but also promotes the use of automation-compatible mail by ensuring that all addresses submitted are standardized with complete and accurate information, including ZIP+4 codes. More than 1.7 billion address corrections were provided to business mailers through the NCOA service during fiscal year 1993.

(3) Address Change Service. The Address Change Service (ACS) offers mailers automated address correction service following the issuance of their mailings. The number of corrections processed through ACS increased 25 percent to almost 77.5 million changes. These changes were accessed by 925 mailers representing more than 2,000 titles.

(4) Delivery Sequence File. The Delivery Sequence File (DSF) is a comprehensive address data system that expands the level of information beyond the ZIP+4 Code level. The system contains a complete address register with carrier delivery sequence information. Consistent with other address quality systems, DSF standardizes the addresses submitted by mailers to ensure automation compatibility.

(5) Address Element Correction Service. Improving address quality allows mailers access to improved deliverability and lower postage rates. Address Element Correction Service (AEC) was designed to correct addresses that could not be matched to the National ZIP+4 file using certified address matching software. Already, millions of addresses have been examined and corrected, leading to improved customer satisfaction. Consistent with other Postal Service address quality systems, AEC standardizes the addresses returned to mailers and corrects erroneous address elements. Current electronic success rates average 45-50 percent of the previously unmatched records.

Offered in January, Step I uses a variety of computer logic resolution processes to correct as many addresses as possible and produce a diagnostic report about the mailer's list management practices. Expansion to Step II, which queries delivery unit personnel for correction information, is projected for early 1994.

(6) Address Notification. Responding to requests from the mailing industry and the need for the use of complete and correct addressing, the Postal Service developed a system of address notification. The address notification effort seeks to influence the American public to use all the elements of a complete and correct address. Initial notification efforts began late in 1993, with approximately 10 million notification mailpieces delivered. Members of the mailing industry received schedules and also had the opportunity to "piggyback" address quality messages to their customers who received notifications. The Postal Service plans to notify 10 million customers during 1994.

(7) Bar Code Certification. To ensure the accuracy of the bar codes applied by mailers, the Postal Service evaluates the ability of customers' hardware and software to produce properly assigned bar codes that meet Postal Service automation requirements. During the year, 118 vendors participated in the certification program — 365 printers, 85 software packages, and 64 systems were certified as producing bar codes that meet automation requirements.

5. Distribution Requirements System

The Distribution Requirements System replaces the distribution labeling information currently contained in the National Air and Surface System (NASS). This labeling information resides as a separate database within the General Operations and Logistics Database (GOLD) and will provide customized labeling lists for each mail processing facility. The data contained in the Distribution Requirements System will be used by NASS for automatic dispatch generation, by the National Directory Support System (Sort Program Subsystem) to update sort programs, and by PASSPORT to standardize label information.

The system is based on a hierarchical structure. National labeling requirements for each class of mail are entered and maintained by headquarters. This information defines the minimum distribution requirements for every mail processing facility. Exceptions to these requirements are defined by areas and/or local offices. The system is being tested by representatives from five of the Distribution Networks Offices, with training to begin in 1994.

6. PASSPORT

PASSPORT is a comprehensive sack and tray label acquisition program that simplifies and standardizes the label ordering process for post offices. The system is a combination of the automatic transmission of label orders to the Topeka Label Printing Center and the existing On-Demand Label System (ODLS) developed by the Postal Service and already in use at more than 120 postal sites.

The system is menu driven and contains the five-digit ZIP Code list of post offices and the Content Identifier Number (CIN) list, as well as the DMM labeling list requirements for mailers. Users can also obtain sequence information for collated sets from the National Directory Support System.

PASSPORT eliminates the tedious and error-prone method of handwriting label orders. As a result, label ordering is simplified, and with the use of a standard label database, information contained on the labels is more accurate. The system is being tested in several facilities, and national deployment will begin in 1994.

E. Delivery Unit Operations

1. General

In August, an effort was begun to enhance customer satisfaction and reduce operating costs by educating postal employees on the proper handling of "undeliverable-as-addressed/unable to forward" mailpieces bearing the endorsement "Address Correction Requested." Distributed to all associate offices, stations, and branches nationwide, the material was designed to increase employee knowledge of the correct handling procedures and standardize the forwarding of flats and letters from the delivery unit to the mail forwarding operation. The program ultimately leads to enhanced customer satisfaction and reduced operating costs.

Delivery Point Sequencing (DPS) of mail continued to be implemented. By the end of 1993, DPS was in place at 537 delivery zones across the country.

Several memorandums of understanding were negotiated with the National Association of Letter Carriers (NALC) that helped provide more efficient delivery operations. At the end of fiscal year 1993, the number of city deliveries was approximately 79.5 million, rural deliveries totaled 23.5 million, post office box deliveries were 19.0 million, and highway contract routes served 1.5 million deliveries.

F. Retail Programs

1. The Retail Plan

During fiscal year 1992, a Retail Plan was developed with customer research and employee input to better ensure that (1) retail services provided meet customer needs; (2) operational efficiencies are improved; (3) opportunities for the sales of postal products are maximized; and (4) retail employee excellence is tapped. Implementation of Retail Plan initiatives started in fiscal year 1993.

a. Customer Service Training. A seminar for window clerks, bulk mail acceptance clerks, postmasters, customer service supervisors, and customer service managers has been developed and will be implemented in fiscal year 1994. The training integrates the customer service quality initiatives and

supports the corporate goals of customer satisfaction (by reinforcing the necessity of courtesy and helpfulness), revenue income generation (by teaching sales techniques to determine customer need, promote value-added features, and review product information), and employee commitment (by encouraging communication, promoting self-esteem, and providing a common customer focus for managers and clerks).

b. Service in Five Minutes or Less. Service in Five Minutes or Less was rolled out nationally in June of fiscal year 1993. A comprehensive "resource package" was sent to all district offices to support planning and field implementation. The national standard to be implemented in fiscal year 1994 will be to serve customers in five minutes or less, with each office tasked with establishing its own plans for making that goal.

c. Adjusted Window Hours. Guidelines were developed in fiscal year 1993 that provided local offices with the tools necessary to analyze their specific needs in providing retail service hours that meet customer needs. Analysis will continue on a periodic basis to ensure that hours of operation continue to meet customer needs.

2. Retail Operations

a. Postal Lobby Improvements. The Postal Service continued to add computer-based Integrated Retail Terminals (IRTs) to retail operations. An additional 3,500 IRTs were procured in fiscal year 1993. By the end of fiscal year 1994, more than 60,000 IRTs are expected to be operational nationwide.

In addition, more than 70,000 Postage Validation Imprinters (PVIs) have been added to IRT systems and at retail windows. PVIs replace postage meters and produce postage labels that validate the collection of postage and include the barcoded destination address of the mailpiece.

National standards for furniture, display fixtures, graphics, and signage that will be used in all future lobby upgrades are being developed. The first pilot sites to be completed in fiscal year 1994 include five sites in Van Nuys, California; three sites in Washington, DC; two sites in Northern Virginia; and five sites in Kansas City, Missouri.

b. Debit/Bank Card Acceptance. The field tests started in fiscal year 1992 were expanded to cover the metropolitan areas of Dallas-Fort Worth, Texas; Orlando, Florida; and Washington, DC. The market test is to determine the feasibility and cost of providing post offices with the means for accepting debit and credit cards as payment for most postal products and services.

Tests will be conducted to determine the feasibility and limitations of accepting debit and credit cards as payment on unattended postal stamp and commodity vending machines. Postal Commodity Machines accepting debit cards only were installed in Santa Ana, California, during fiscal year 1993 and are now being evaluated.

c. Self-Service Equipment. New Postal Commodity Machines (PCMs) were deployed in postal lobbies during fiscal year 1993. More than 4,000 of these new items have been manufactured and represent the first phase in the overhaul of the self-service program. A new vending machine that sells basic postage stamps in booklet form or separately from coils has been designed and will be deployed during fiscal year 1994. Customers can use debit cards as well as cash when purchasing their stamps from the new vendor. Under the present project, 5,000 units of this machine are being purchased. The remaining new vending machines, which complete the overhaul of the self-service program, are in the pre-procurement phase.

In fiscal year 1993, 15 Postage and Mailing Centers (PMCs) were tested as part of a national field test. The PMC offers customers convenience and fast service for obtaining mailing information and costs. The PMC prints and dispenses stamps of the exact postage required at the time of purchase. Ergonomically designed for all users and offering bilingual (English/Spanish) customer interaction, the PMC is available for use 24 hours per day. The PMC also collects transaction and service data and transmits this information to a central site for processing.

d. Citizens Kiosk. The Postal Service has initiated the development of an electronic kiosk to provide the public with convenient information services from as many as 14 government agencies. Some key technical features of the kiosk are interactive multimedia presentations, touch-screen technology, digital

sound and video, multi-language capability, and a user-friendly secure enclosure. In the initial offering, expected before the end of fiscal year 1994, the Postal Service will be joined by the Bureau of the Census, the Internal Revenue Service, the Social Security Administration, and the Veterans Administration. Typical postal information available will include rates, ZIP codes, and mailing instructions.

e. Philatelic Programs. Net philatelic revenue was approximately \$250 million in fiscal year 1993, with the Elvis Presley Stamp leading the way. The Postal Service conducted joint ventures with Broadway for the Broadway Musical Stamps and with Ringling Bros. and Barnum & Bailey for the Circus Stamps. The Postal Service continued its development and expansion of self-adhesive stamps with issues of the Red Squirrel, Rose, and Christmas stamps.

Revenues from the Kansas City Philatelic Fulfillment Service Center were \$58 million, an increase of 12 percent over last year, while expenses decreased 6.2 percent.

G. Information and Research Programs

1. Technology Programs

The flat mail automation research program was curtailed due to budgetary constraints and developments in the private sector. A private-industry vendor developed a flat sorter that can sort virtually all flats while the current flat sorter can sort only about 70 percent. The Postal Service tested this flat sorter and has been working in partnership with the vendor to add ergonomic and operational improvements. This effort has been successful, and deployment of this equipment to augment current processing capability will take place in fiscal year 1995. This flat sorter takes operator-keyed information and sorts the flat mail. The Postal Service is also in the process of adapting the flat mail bar code reader to the sorter to facilitate processing barcoded flats.

A flat mail high-speed feeder that handles mail compatible with the current postal flat sorter has been under development. It was successfully tested during fiscal year 1993. During the tests, the feeder demonstrated the capability to automatically feed flats at a rate sufficient to keep the flat sorter filled. The testing showed several minor sorter and feeder deficiencies. The feeder deficiencies will be rectified in fiscal year 1994 as the feeder is production engineered. In addition, the Postal Service is working with vendors to define the requirements to improve the flat sorter so the combined feeder/sorter is a more effective flat mail bar code sorter. The Postal Service anticipates this effort will be completed in fiscal year 1994.

During fiscal year 1993, the address recognition research and development programs that were conducted in two separate departments were consolidated into one organization. These consolidated efforts have been restructured to define an address recognition and interpretation program for letter mail that will yield valuable performance improvements for letter mail encode rates in the near term.

One address recognition and interpretation system that will be tested in conjunction with the current letter mail processing system has been defined for testing in 1994. This system is composed of a camera with improved image fidelity and address-recognition and address-interpretation subsystems that have yielded outstanding performance in engineering tests.

An advanced research activity in address recognition and interpretation, including handwritten addresses, has attained target performance levels in a laboratory environment. This indicates significant potential value in letter mail processing. The results of these advanced research activities have been made available to potential manufacturers of mail processing equipment. This technology transfer was facilitated through a technology transfer workshop. Furthermore, the research efforts have been refocused to yield near-term performance improvements.

2. Information Systems

Five computer operation centers were consolidated into two sites: Minneapolis, Minnesota, and San Mateo, California. Computer operations activities at Raleigh, North Carolina; Wilkes-Barre, Pennsylvania; and New York, New York, were terminated. All production responsibilities were transferred to the remaining two sites. This consolidation enabled the achievement of greater efficiency in operations and savings while maintaining contingency backup capabilities.

a. Executive Information System (EIS). The Postal Service has enhanced the Executive Information System, which was initially designed to provide operations and performance data to headquarters

and field senior management, with additional applications and expanded its use to include the 10 area offices and their managers. There are 14 applications that display text and graphic information on key performance measurements such as mail processing operations, corporate complement, service indicators, and financial status. One of the most important developments this year is the availability of the data for review within three hours of actual data collection.

b. Customer Service Daily Reporting System (CSDRS). This is one of the major applications developed in fiscal year 1993 that is under the EIS umbrella. Developed jointly by Delivery Policies and Programs, Information Systems, and Engineering, CSDRS collects exception data such as volume of curtailed mail and number of late carrier departures every morning from 6,000 of the largest delivery units. These data are transmitted to the local Customer Service District and mail processing plants for status reporting and for corrective action as appropriate. Within a few hours, the information is made available to headquarters management through the Executive Information System.

c. Complement Planning. Complement planning models for Customer Service and Sales and for Processing and Distribution were created, tested, and deployed throughout the country during fiscal year 1993. As a result, district and plant managers are using these programs to determine their staffing needs as equipment deployment schedules significantly affect workload and complement projections.

d. Workload/Work Hour Equalization Program. The Workload/Work Hour Equalization Program, which reviews clerical work hour requirements in associate offices, level EAS-18 and below, was tested in fiscal year 1993. This program objectively identifies the customer service workload for each office and distributes clerical work hours equitably. Training was conducted for 24 districts in fiscal year 1993, and 45 more have been scheduled for the first two months of fiscal year 1994.

H. Private Express

To protect the revenue base of the postal system, the Private Express Statutes have long restricted the private carriage of letters for compensation. The statutes go hand-in-hand with a singular obligation to provide a universal mail service at uniform rates throughout the nation.

Today, the statutory shield does not effectively remove the Postal Service from all forms of competition, even in its letter services. The telephone has already displaced most personal correspondence, and senders of business messages, bills and payments, and advertising will continue to see increasing opportunities in other media. In a more vulnerable, potentially volatile environment, the Private Express Statutes remain a force for financial stability. But the statutes will not be sufficient, alone, to preserve a system of universal mail service with uniform rates.

The Postal Service must become a more assertive, responsive, and effective competitor, keeping its customers and attracting new ones through the value and satisfaction that its services, in totality, provide.

A successfully competitive, but partially protected postal system is not achievable without special challenges. Effective enforcement of the statutes presupposes that the American people and their institutions will continue to value and respect the concepts of universal mail service and uniform rates, neither of which would be likely to survive without the statutes. The Postal Service bears a responsibility to serve its customers well enough overall that they will continue to demand the type of universal mail system it provides.

This past year, the Postal Inspection Service completed a review of compliance with the Private Express Statutes by selected federal civilian agencies in their use of expedited delivery services. Working in cooperation with the Inspectors General of the agencies concerned, the review found that training and management systems needed to be upgraded to bring the activities surveyed into compliance.

Chapter 3

Financial Highlights

A. Financial Results

1. Financial Status

In fiscal year 1993, the Postal Service recorded \$47.6 billion in operating revenues. Operating expenses for the year totaled \$46.3 billion, resulting in an income from operations of \$1.26 billion. Adding investment income of \$404 million and debt interest expense of \$690 million, together with the \$1.35 billion interest expense on the unfunded retirement liability, results in a loss for the year of \$371 million. Inclusion of the 1993 OBRA expense of \$857 million and the debt refinancing charge of \$537 million (which will save the Postal Service more than \$2 billion over a 20-year period) results in a net loss in fiscal year 1993 of \$1.765 billion.

Although these results are a dramatic improvement from earlier forecasts, any loss weakens the Postal Service's equity position. As of September 30, 1993, the net capital deficiency of the Postal Service was \$5.048 billion. (See Table 11.)

In addition to direct competition in the marketplace and the use of technology to replace hard copy messages, the Postal Service also faces financial challenges due to actions taken by the federal government. In recent years, an important component of Postal Service financial performance has been cost transfers from the government. Table 4 shows the magnitude of these transfers, which totaled almost \$5.8 billion in fiscal year 1993.

The transfer to the Postal Service of responsibility for postal annuitant costs began with enactment of the 1985 Omnibus Budget Reconciliation Act (OBRA), which required the Postal Service to fund health benefit costs for all postal annuitants who retired after September 30, 1986.

Subsequent OBRAs expanded the Postal Service's responsibility for annuitant health benefit costs and also included annuitant cost-of-living adjustments (COLAs). Currently, the Postal Service is responsible for health benefit costs and COLAs of postal annuitants who retired after June 30, 1971, and their survivors. The cumulative impact of postal annuitant COLA and health benefit costs transferred to the Postal Service as a result of all OBRAs since 1985 was \$6.8 billion through fiscal year 1993 as shown in Table 4. This table also details the nearly \$42 billion in cost transfers from the taxpayer to the Postal Service since the early 1970s. The most recently transferred costs of Civil Service Retirement System annuitants' COLAs and annuitants' health benefits will grow rapidly over the next few years, creating upward pressure on postal rates.

Another major federal government action affecting the Postal Service's financial status concerns funding for subsidies to preferred rate mailers. Revenue forgone appropriation shortfalls, as discussed later, have been a significant contributor to recent year-end net losses for the Postal Service.

2. Income

a. Analysis. Revenues from mail, services, and appropriations in fiscal year 1993 totaled \$47.6 billion. Revenues from mail were up 2.7 percent and services revenue increased 5.3 percent. Investment income in fiscal year 1993 was enhanced by capital gains of \$166 million, which partially offset the impact of lower interest rates and a smaller portfolio.

b. Appropriations. The Postal Service is authorized to receive three types of appropriations: public service, transitional, and revenue forgone.

The public service appropriation reimburses the Postal Service for providing uniform, nationwide mail service. By law, the Postal Service is authorized to request \$460 million for public service. However, for fiscal year 1993, the Postal Service neither requested nor received any public service appropriation, yet continued to provide service throughout the country. This marked the twelfth consecutive year that no public service subsidy was provided.

Comprehensive Statement on Postal Operations

Table 4
Selected Costs Transferred
from U.S. Government to U.S. Postal Service
(\$ in Millions)

	FY 1987 and Prior	1988	1989	(Fiscal Years)				1993	Totals
				1990	1991	1992			
CSRS unfunded liability	\$10,561*	\$1,568	\$1,618	\$1,659	\$1,775	\$1,896	\$1,938		\$21,015
Public service costs**	3,734	460	460	460	460	460	460		6,494
Excess of FERS over CSRS	960	722	924	1,075	1,221	1,313	1,384		7,599
CSRS retirement (OBRA of 1987)	—	350	—	—	—	—	—		350
FEHB fund (OBRA of 1987)	—	160	270	—	—	—	—		430
Post-86 annuitant health benefits (OBRA of 1985)	10	53	100	166***	—****	—	—		329
Post-86 CSRS annuitant COLA (OBRA of 1989)	—	—	—	74	—****	—	—		74
Post-71 annuitant health benefits (OBRA of 1990)	—	—	—	—	328	380	510		1,218
Post-71 CSRS annuitant COLAs (OBRA of 1990)	—	—	—	—	421	491	551		1,463
Prior year annuitant COLA and health benefits costs (OBRA of 1990)	—	—	—	—	1,901	81	70		2,052
OBRA 1993	—	—	—	—	—	—	857		857
Total	\$15,265	\$3,313	\$3,372	\$3,434	\$6,106	\$4,621	\$5,770		\$41,881

* Excludes \$285 million relating to fiscal years 1972-1974 which was reimbursed by special appropriation.

** Reimbursement amounts authorized by Postal Reorganization Act, but not received.

*** Also includes survivor health benefits pursuant to OBRA of 1989

**** OBRA 1985 and OBRA 1989 were superseded by OBRA of 1990.

Table 5
Income and Expense Statement
(\$ in Millions)

	FY 1992	FY 1993	Amount	Net Change	%
Income:					
Mail revenues	44,717	45,908	1,191		2.7
Special services	1,434	1,510	76		5.3
Revenue forgone appropriation	545*	164**	(381)	(	69.9)
Operating revenue	46,696	47,582	886		1.9
Expense:					
Compensation and benefits	37,122	38,447	1,325		3.6
Other costs	7,521	7,745	224		3.0
Restructuring costs	1,010	129	(881)	(	87.2)
Operating expense	45,653	46,321	668		1.5
Income from operations	1,043	1,261	218	(	20.9)
Interest income	409	404	(5)	(	1.2)
Interest expense on unfunded retirement liabilities	(1,269)	(1,346)	(77)	(	6.1)
Interest expense on borrowings	(638)	(620)	18		2.8
Imputed interest on OBRA of 1990	(81)	(70)	11		13.6
Loss before OBRA 1993 retroactive interest assessment and extraordinary item	(536)	(371)	165		30.8
OBRA 1993 retroactive interest assessment	—	(857)	(857)		NM
Loss before extraordinary item	(536)	(1,228)	(692)		NM
Extraordinary item debt refinancing premium	—	(537)	(537)		NM
Net loss	(536)	(1,765)	(1,229)		NM

* Includes accrual of \$1 million for shortfall which was to be included in the fiscal year 1995 reconciliation process.

** Includes \$42 million to accrue net financial impact of revenue forgone reform legislation in fiscal year 1993.

Table 6
Impact of Revenue Forgone Appropriation*
on Revenues, Fiscal Year 1993
(\$ in Millions)

Classes of Service	Total Income of Service <i>(dollars in millions)</i>	Income from Revenues	Income from Appropriation	Appropriation as a Percentage of Income
First-Class Mail	\$28,827.9	\$28,827.9	none	none
Priority Mail	\$ 2,299.7	\$ 2,299.7	none	none
Express Mail	\$ 627.1	\$ 627.1	none	none
Mailgram	\$ 7.1	\$ 7.1	none	none
Second-Class Mail				
Within county	\$ 88.3	\$ 85.0	\$ 3.3	3.74
Outside county				
Nonprofit and classroom publications	\$ 290.5	\$ 281.4	\$ 9.1	3.13
Regular-rate publications	\$ 1,359.2	\$ 1,359.1	\$ 0.1	—
Fees	\$ 14.9	\$ 14.9	none	none
Total Second-Class Mail	\$ 1,752.9	\$ 1,740.4	\$ 12.5	0.71
Third-Class Mail				
Single-piece rate	\$ 197.8	\$ 197.8	none	none
Regular bulk rate	\$ 8,347.8	\$ 8,347.8	none	none
Nonprofit bulk rate	\$ 1,260.9	\$ 1,204.8	\$ 56.1	4.45
Fees	\$ 66.3	\$ 66.3	none	none
Total Third-Class Mail	\$ 9,872.8	\$ 9,816.7	\$ 56.1	0.57
Fourth-Class Mail				
Parcels (zone rate)	\$ 575.6	\$ 575.6	none	none
Bound printed matter	\$ 306.2	\$ 306.2	none	none
Special rate matter	\$ 257.4	\$ 257.4	none	none
Library materials	\$ 43.2	\$ 42.8	\$ 0.4	0.93
Fees	\$ 1.3	\$ 1.3	none	none
Total Fourth-Class Mail	\$ 1,183.8	\$ 1,183.3	\$ 0.4	0.03
Free mail for the blind and handicapped	\$ 51.7	\$ 0.0	\$ 51.7	100.00
Overseas absentee ballots	\$ 1.2	\$ 0.0	\$ 1.2	100.00
International Mail	\$ 1,406.5	\$ 1,406.5	none	none
Totals****	\$46,030.6	\$45,908.7	\$121.9**	0.26
Net impact of Revenue Forgone Reform Act of 1993			42.0***	
Revenue forgone recognized in 1993			\$163.9	

* Revenue forgone is that revenue given up or "forgone" by the Postal Service as a result of providing mail service at a reduced rate. This revenue loss is reimbursed to the Postal Service by an annual appropriation of Congress, as specified in the 1970 Postal Reorganization Act, as amended by the Revenue Forgone Reform Act of 1993.

** The total appropriation for fiscal year 1993 was \$121.9 million. Free mail for the blind and handicapped was fully funded and the remainder of the funds was prorated among those mailing categories previously funded

*** In 1993, Congress enacted legislation which altered certain aspects of the revenue forgone program and will reimburse the Postal Service for past amounts due — as well as prospective amounts to be earned through 1998 — over the next 42 years. In 1993, the Postal Service recorded a receivable of \$42 million to reflect the net impact of this legislation.

**** Totals may not add due to rounding.

The transitional appropriation pays for the unfunded liabilities of the old Post Office Department so current ratepayers will not be burdened by debts incurred two decades ago. The only remaining debt is that for workers' compensation payments for injuries that occurred under the former Post Office Department. The Postal Service requested and received an appropriation of \$38.6 million in fiscal year 1993, which was transmitted to the Department of Labor.

The revenue forgone appropriation funds free and reduced rates for selected mailers specified by the statute. For the third year in a row, a major portion of the revenue forgone appropriation was deferred by Congress. Originally, the Postal Service requested a \$482 million appropriation for 1993, \$511 million of which was necessary to fully fund the appropriation for subsidized mailers and \$29 million of which was to be a downward reconciliation adjustment from a previous year. Congress' decision to fund only \$121.9 million of the fiscal year 1993 request, together with previous years' shortfalls, has resulted in a debt of \$516 million.

To remedy this, Congress passed legislation that will continue to recognize the benefits of the preferred categories of mail, but will reduce the revenue forgone appropriations and reimburse the Postal Service for past amounts due. In addition to placing some minor restrictions on the commercial use of preferred rate mail, this change will increase the nonprofit rates gradually over a six-year period until the nonprofit mailers pay 50 percent of the overhead costs associated with their mail. The legislation also provides funding for free mail for the blind and handicapped (approximately \$63 million for fiscal year 1994) and approximately \$29 million in additional funds annually, for a period of 42 years, to repay the debt incurred in past years and for Postal Service losses incurred in the phasing process. However, the present value of the 42-year stream of payments, calculated at 7 percent, is only \$390 million — about one-third of the amount due.

Table 7
Appropriations
(\$ in Thousands)

	Public Service	Revenue Forgone	Post Office Dept. Transitional Costs	Total
Fiscal year 1993:				
USPS statutory request	—	\$ 481,912	\$ 38,614	\$ 520,526
President's recommendation	—	\$ 121,912	\$ 38,614	\$ 160,526
Treasury-Postal appropriation				
P. L. 102-393	—	\$ 121,912	\$ 38,614	\$ 160,526
Fiscal year 1994:				
USPS statutory request	—	\$ 531,253	\$ 38,803	\$ 570,056
President's recommendation	—	\$ 91,434	\$ 38,803	\$ 130,237
Treasury-Postal appropriation				
P. L. 103-123	—	\$ 91,434	\$ 38,803	\$ 130,237

c. Investment Income. The Postal Service's investment income for fiscal year 1993 was \$404.2 million. This was composed of interest income of \$238.2 million and capital gains of \$166 million. Income was earned on an average cash and securities balance of \$6.2 billion, for a realized return of 6.51 percent.

3. Costs

a. General Analysis. Operating expenses increased from \$45.6 billion in fiscal year 1992 to \$46.3 billion in fiscal year 1993. Personnel and related costs grew 3.6 percent to \$38.4 billion in fiscal year 1993. Non-personnel expenses — including transportation, supplies and services — increased by 3.0 percent to \$7.7 billion. Restructuring costs, which were \$1.01 billion in fiscal year 1992, were \$129 million in fiscal year 1993.

Table 8
Application of Funds
Fiscal Year 1993
(\$ in Millions)

Activities	Expense	Percent
Mail processing & window services	\$ 14,717	29.6
Delivery services	14,153	28.4
Post office supervision and administration	4,257	8.6
Building and equipment maintenance support	2,003	4.0
Transportation of mail	3,125	6.3
Building occupancy; supplies and services	2,394	4.8
Servicewide expenses	7,340	14.8
Headquarters, area administration, and Inspection Service	842	1.7
Depreciation	920	1.8
Total	\$ 49,751	100.0

b. Salary and Benefit Costs.

(1) Increases. Personnel compensation and benefits (including interest on unfunded liabilities) accounted for 80 percent of the Postal Service's total expenses in 1993. During fiscal year 1993, the average annual base salary of a bargaining unit employee was \$32,458 or \$15.60 per hour. Adding benefits, overtime, and premiums, the average bargaining unit hourly rate was \$20.53, yielding an effective annual compensation rate of \$42,711.

Postal Service personnel compensation costs in fiscal year 1993 were again adversely affected by increases in health benefits costs. In fiscal year 1993, these costs increased from \$2.709 billion to \$2.845 billion, or 5 percent.

(2) Retirement Costs. The majority of Postal Service career employees hired prior to January 1, 1984, are covered by the Civil Service Retirement System (CSRS) and contribute 7 percent of their basic annual salary to the Civil Service Retirement and Disability Fund. The Postal Service provides a matching contribution for each employee.

The Postal Service is liable for that portion of any estimated increase in the unfunded liability of the CSRS Fund attributable to Postal Service employee/management agreements that authorize increases in employees' basic pay on which benefits payable from the CSRS Fund are computed.

The estimated increase in the unfunded liability for active CSRS employees is determined by the Office of Personnel Management (OPM), amortized over 30 years, and paid by the Postal Service in 30 equal annual installments with interest computed at 5 percent per annum. The total increase in the annual expense layer resulting from increases in basic annual salary was approximately \$45 million in fiscal year 1993, down from \$116 million in fiscal year 1992.

The fiscal year 1989 Omnibus Budget Reconciliation Act (OBRA) transferred to the Postal Service responsibility for cost-of-living adjustments (COLAs) of postal annuitants and their survivors who retired after September 30, 1986. The OBRA of 1990 superseded the OBRA of 1989 and expanded the Postal Service's responsibility for the cost of COLAs to include all its annuitants who retired after June 30, 1971, and their survivors, apportioned for federal civilian service incurred after June 30, 1971. This liability and future liability layers will be amortized and paid over 15 years, beginning in the year the liability was created. The annual expense related to annuitant COLAs was \$550.7 million for fiscal year 1993 and \$490.8 million for fiscal year 1992. (See Table 9.)

In addition, the OBRA of 1990 created a retroactive liability for the Postal Service to reimburse the federal government for COLA payments for which the Postal Service would have been liable had the provisions of the OBRA of 1990 been in effect as of July 1, 1971. Total retroactive payments for these COLAs will be \$1.7 billion. The present value of the payments was accrued and expensed in fiscal year 1991. The third payment of this liability, made on September 30, 1993, was \$316 million. Imputed interest of \$54 million related to the COLA retroactive liability was expensed in fiscal year 1993.

In fiscal year 1989, the Postal Service was required by OPM to record a \$400 million liability for unfunded costs attributable primarily to CSRS employees who elected to switch into the Federal Employees Retirement System (FERS). This liability is amortized over 30 years at 7 percent interest and paid in 30 equal annual installments. The fifth installment of \$32 million was paid on September 30, 1993.

The OBRA of 1993, enacted in August, obligated the Postal Service to pay interest on the retroactive assessments due under the OBRA of 1990. The interest assessment will be paid in three annual installments, beginning in fiscal year 1996, totaling \$1.041 billion. The assessment represents interest, at 5 percent, on the employer's portion of annuitant COLAs and health benefits, previously paid by the U.S. government, that the Postal Service would have paid had the provisions of the OBRA of 1990 been in effect from July 1, 1971, through September 30, 1986.

Following generally accepted accounting principles, the Postal Service recorded an expense of \$857 million in fiscal year 1993, representing the present value of these payments. Table 9 shows details of Postal Service retirement costs in fiscal years 1992 and 1993.

Table 9
Retirement Costs
(\$ in Millions)

	FY 1992	FY 1993
Retirement (CSRS)	\$ 941.9	\$ 828.1
Unfunded liability (CSRS)	\$ 1,895.8	\$ 1,938.3
CSRS annuitant COLAs	\$ 490.8	\$ 550.7
Retirement (CSRS/dual)	\$ 31.2	\$ 31.1
Retirement (FERS)	\$ 1,060.5	\$ 1,093.0
Thrift savings (FERS)	\$ 275.8	\$ 303.5
Unfunded liability (FERS)	\$ 32.2	\$ 32.2
Subtotal	\$ 4,728.2	\$ 4,776.9
Old age survivors disability insurance (OASDI)		
OASDI (dual)	\$ 31.7	\$ 32.8
OASDI (FERS)	\$ 648.7	\$ 701.5
OASDI (other)	\$ 61.8	\$ 119.6
Total	\$ 5,470.4	\$ 5,630.8

(3) Workers' Compensation Costs. The Postal Service reimburses the Department of Labor (DOL) annually for payments made on behalf of active Postal Service workers' compensation claims during the previous DOL fiscal year. In fiscal year 1993, the Postal Service reimbursement payment was \$471.1 million, comprising \$158.9 million in medical claim reimbursements and \$312.2 million in compensation claim reimbursements.

The fiscal year 1993 payment increased \$35.0 million over the fiscal year 1992 payment of \$436.1 million, and reflected increases of \$17.3 million and \$17.7 million in payments for medical and compensation claims, respectively. Both the amount of the total increase and the amounts of increase for the two types of claims represent a decrease in the rate of growth relative to fiscal year 1992, which saw a total increase of \$53.5 million comprising medical and compensation increases of \$18.5 million and \$35.0 million, respectively.

This slowed rate of growth in the amount of the reimbursement to DOL reflects slowed growth in the number of compensation claims. In fiscal year 1993, this type of claim increased by 1,109, a sharp drop from fiscal year 1992's extraordinary increase of 1,977 claims. Medical claims, however, increased by 8,411, more than twice the fiscal year 1992 increase of 3,267.

In fiscal year 1993, the average payment per compensation claimant was \$13,482, a decrease of \$73 from the fiscal year 1992 average. The average medical claim cost \$1,631, a \$40 increase from the prior fiscal year. Comparable fiscal year 1992 increases were \$420 and \$160 for compensation and medical claims, respectively.

The Postal Service adheres to Generally Accepted Accounting Principles (GAAP). Accordingly, the Postal Service practices accrual accounting and recognizes estimated future year payments associated with currently active claims. Changes in the discounted present value of the total estimated future payments are shown as an increase or decrease to the long-term workers' compensation liability on the

Table 10
Postal Service Workers' Compensation Expense and Cash Payments
(\$ in Millions)

Fiscal Year	Estimated Annual Increase/Decrease In Active Claims*	Administrative Charge (DOL)	Total Annual Expense*	Payments to DOL for USPS Active Claims and Admin. Charges**
1972	86.2	—	86.2	—
1973	78.6	—	78.6	—
1974	93.7	—	93.7	28.5***
1975	237.9	3.0	240.9	34.7
1976	349.5	4.1	353.6	58.0
TQ	81.1	—	81.1	—
1977	624.4	4.7	629.1	82.9
1978	505.3	6.0	511.3	130.5
1979	746.1	9.0	755.1	147.9
1980	489.7	8.4	498.1	161.0
1981	465.7	8.7	474.4	174.4
1982	278.4	7.6	286.0	189.9
1983	-31.3	7.4	-23.9	188.4
1984	157.7	10.4	168.1	187.3
1985	313.1	10.5	323.6	194.0
1986	495.4	8.8	504.2	211.0
1987	307.0	8.7	315.7	235.5
1988	509.3	10.2	519.5	245.0
1989	680.1	10.8	690.9	270.6
1990	753.1	14.6	767.7	670.6****
1991	173.6	9.1	182.7	397.0
1992	1070.7	14.4	1085.1	453.5
1993	927.9	17.4	945.3	487.3
1994		16.1		

* All years prior to FY 1993 include nominal expenses for OWCP health benefits.
** Payments in this table are on cash basis by fiscal year in which the payments were made. Listed payments include payments for active USPS claims and for associated DOL administrative charges. Payments exclude all payments for Post Office Department claimants.

*** Payment was for FY 1973 and FY 1974 active claims.
**** Payment comprises FY 1989 and 1990 active claims and FY 1990 administrative charge. Separate payments were made in October of 1989 (FY 1989 active claims and FY 1990 administrative charge) and September of 1990 (FY 1990 active claims and FY 1991 administrative charge).

Postal Service financial statements. Thus, the annual Postal Service workers' compensation expense consists of three primary components: (1) the discounted present value of the estimated long-term liability for those cases which became active during the current fiscal year, (2) adjustments to the estimate of the future liability for cases which became active in years prior to the current fiscal year, and (3) a prorated share of the DOL workers' compensation program administrative expenses. The annual cash payment in reimbursement for active claims is the portion currently payable of the increases described in (1) and (2) above, and is a reduction in the amount of the overall increase in the long-term liability.

In fiscal year 1993, management adopted changes in the net discount rates used in determining the present value of estimated future workers' compensation payments. The discount rate for compensation claims was changed to 3.0 percent from 2.7 percent; the discount rate for medical claims was changed to 0.1 percent from 1.1 percent. The net effect of the adoption of these rates was a reduction in the liability of \$23.6 million. In management's opinion, these net discount rates better reflect the excess of future rates of interest earnings on postal-held investments over expected future rates of inflation for these two types of claims.

Please refer to Table 10 for a history of accrued workers' compensation expenses and annual cash payments.

B. Banking

During fiscal year 1993, the Postal Service cash concentration system continued to ensure that all receipts were collected and accounted for at more than 40,000 locations. Average daily receipts of \$275 million were deposited into 7,500 bank accounts in more than 5,200 commercial banks.

Commercial bank account deposits that exceeded the Federal Deposit Insurance Corporation (FDIC) insured limit of \$100,000 were collateralized by U.S. Treasury securities, which are held in safekeeping at Federal Reserve Banks and Branches.

The postal Controlled Disbursement Account (CDA) with Bank of America continues to run smoothly and realizes the projected cash management benefits: quick stop payment and check replacement; positive pay security; accounting period check reconciliation; and substantial interest income on float. The Postal Service will expand this program in fiscal year 1994 to cover two million nonpayroll-related disbursements valued at \$7.5 billion.

Moving into electronic payments is essential in order to satisfy customers. Major mailers have expressed an interest in settling their postage payments electronically. A pilot project was recently begun in the Greater Indiana District to allow the Postal Service to debit the bank account of Time-Life Inc. through the Automated Clearing House (ACH) system. This method allows the Postal Service to have better control of the timing of a mailer's payment and eliminates check float and handling costs, as well as eliminating the need for the mailer to maintain a trust fund deposit.

In June 1993, the Postal Service expanded its market test of credit and debit card acceptance to 1,850 windows at 555 facilities in the Orlando, Florida; Dallas/Ft. Worth, Texas; and Washington, DC, metropolitan areas. The intent of this phase of card acceptance is to make retail window transactions more convenient for individual customers and small businesses. The process of data collection, comparison of card acceptance costs with alternative payment methods such as currency and checks, preparation of management Decision Analysis Reports, and Board of Governors presentations will follow. National expansion is expected to begin in spring 1994.

C. Cash Management

Title 39, United States Code, authorizes the Postal Service to deposit receipts in any Federal Reserve Bank or depository for public funds. The Postal Service uses a network of commercial banks to collect and concentrate receipts. These receipts are ultimately held in the Federal Reserve Bank of New York. The Postal Service makes its own disbursements through bank and Treasury checks and electronic means.

Regarding investment, title 39 states that the Postal Service may invest in obligations of the U.S. government, or obligations guaranteed by the U.S. government. With the approval of the Secretary of the Treasury, the Postal Service can invest in non-government securities. Prior to 1977, the Postal Service was allowed to invest in marketable Treasury obligations, but the Treasury has since required it to invest only in nonmarketable special issue Treasury securities. These securities "mirror" most properties of outstanding Treasury bills and coupon issues, but they can only be bought from and sold to the U.S. Treasury under special procedures.

The Postal Service's financing is also addressed by provisions in title 39 that require it to "advise" the Secretary of the Treasury — at least 15 days prior to the sale date — of the amounts, proposed date of sale, maturities, terms and conditions, and expected maximum rates of interest on proposed debt issues, and to "consult with the Secretary or his designee thereon." The Treasury may purchase such securities. If it does not, the Postal Service may sell them in the public markets upon notice and consultation with the Secretary of the Treasury, as stipulated.

D. Analysis of Balance Sheet

On September 30, 1993, the balance sheet of the Postal Service reflects total assets of \$47.3 billion, comprised of \$4.5 billion in current assets, \$15.5 billion in property and equipment, \$27.0 billion in deferred retirement costs, and \$0.2 billion in other assets. Total liabilities at the end of the period were \$52.3 billion, with retirement benefits payable comprising nearly 50 percent of this total at \$25.9 billion. On September 30, 1993, the Postal Service had a net capital deficiency of \$5.05 billion.

Table 11
Highlights of Financial Condition
September 30, 1993
(\$ in Millions)

Current assets	\$ 4,478.1
Property and equipment	\$ 15,534.5
Deferred retirement and other	\$ 27,268.5
Total assets	<u>\$ 47,281.1</u>
Current liabilities	\$ 10,139.7
Long-term debt, less current portion	\$ 8,686.3
Retirement benefits payable	\$ 25,915.3
Other liabilities	\$ 7,587.5
Total liabilities	\$ 52,328.8
Capital deficiency	<u>(\$ 5,047.7)</u>
Total liabilities and equity	<u>\$ 47,281.1</u>
Total borrowing authority	\$ 15,000.0
Debt outstanding	\$ 9,748.3
Undrawn borrowing authority	\$ 5,251.7

E. Capital Investments

1. Fiscal Year 1993 Developments

a. General. Although the Capital Investment Program for fiscal year 1993 called for investments of \$3.4 billion, the plan underwent a recertification process of capital projects due to the organizational restructuring. Efforts in fiscal year 1993 focused on evaluating capital needs for the new field structure, assessing changes in operational strategies, and revalidating the major facility priority list. Organizations received interim capital funding authorizations for emergency facility projects and critical equipment needs, but spending controls were placed on certain postal support equipment. Capital investments for the year were reduced, with actual commitments concentrating primarily on the automation program to support the Corporate Automation Plan and building improvements to maintain facility assets.

The following chart shows the final results for the year:

FY 1993 Capital Commitments **(\$ in Millions)**

Line Item	Plan	Actual	% Change
Facilities	\$ 1,818.1	\$ 403.2	-77.8
Mail processing	1,289.0	634.5	-50.8
Vehicles	36.5	66.3	NM
Retail equipment	25.5	11.1	-56.5
Postal support	250.9	194.5	-22.5
Totals	\$ 3,420.0	\$ 1,309.6	-61.7

b. Financing. Financing of capital assets came from three sources: recovery of depreciation expense through postage rates, available working capital, and the sale of capital assets. Cash generated from depreciation expense was \$920 million and \$66 million was from the sale of assets. The remaining cash required to purchase capital assets came from working capital. This is a departure from previous years when large portions of capital needs were met through borrowing.

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